



XSTATE RESOURCES LIMITED

ABN 96 009 217 154

ANNUAL FINANCIAL REPORT

For the year ended 31 December 2023

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CORPORATE DIRECTORY

Directors

Mr Andrew Childs
Mr Greg Channon
Mr Andrew Bald

Secretaries

Mr David McArthur
Mr Jordan McArthur

Registered and Principal Office

Level 1, 31 Cliff Street
Fremantle WA 6160

Website: www.xstateresources.com.au

Telephone: +61 8 9435 3200

Postal Address

PO Box 584
Fremantle WA 6959

Auditors

BDO Audit (WA) Pty Ltd
Level 9, Mia Yellagonga Tower 2, 5 Spring Street
Perth WA 6000

Bankers

ANZ Banking Group Limited
Level 6, 77 St Georges Terrace
Perth WA 6000

Share Registry

Automic Group
Level 5, 191 St Georges Terrace
Perth WA 6000

Telephone: 1300 288 664

ASX Code

Shares: XST

Country of Incorporation and Domicile

Australia

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CHAIRMAN'S ADDRESS

Dear Shareholder,

I am pleased to present the 2023 Annual Report for Xstate Resources Limited.

With production from Red Earth and Anshof assets, and gains made on the divestment of the Alberta Plains assets, the Company booked a maiden net profit for the financial year ended 31 December 2023 (after income tax) of \$1,400,766.

In the first quarter of 2023 the Company acquired a 25% working interest in 10,240 gross acres (16 sections) in a ground floor deal from Blue Sky Resources, Operator of our Canadian Assets. This acquisition also included 2 oil discoveries and 10 Keg River Formation prospects mapped on 3D seismic. Both wells have been completed with one subsequently shut in and the other generating around C\$20,000 per month on a gross basis.

The Austrian Ministry of Finance awarded a production licence to the Company's Anshof Oil Project (XST 20% WI) in March 2023 after less than 12 months from initial testing. Test production from the Anshof-3 well commenced in October 2022 utilising a rented early production system and achieved an average stable rate of 113 gross barrels per day of light crude oil (33degrees API) This production rate was constrained by storage facilities at site and is currently being upgrade to hold 3,000 barrels.

The disposal of our Alberta Plains assets in the September 2023 quarter for C\$1,007,731 added valuable cash to the Company. Part proceeds of this asset sale have been deployed to prosecute the global search for the acquisition and advancement of high impact exploration and appraisal opportunities.

The Company continues to review its existing producing assets with a view to optimizing shareholder return.

Post year end the Company announced the sale of its Northern Albertan Red Earth production assets for US\$2.73m (approximately A\$4.2m). This timely disposal will enable the recapitalisation of the Company without incurring any additional shareholder dilution.

On behalf of the Board of Xstate, I would like to thank shareholders for their continued support and look forward to meeting as many of you as possible in person at the Annual General meeting in April 2024.



Andrew Childs

Chairman

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REVIEW OF OPERATIONS

Overview

Xstate Resources Limited (“Xstate”, “the Company” or “the Group”) is listed on the Australian Stock Exchange (ASX:XST). The Group is primarily involved in oil and natural gas exploration and production.

The 2023 calendar year continued our journey of development and production in Canada and Austria.

Our production in Canada in 2023 has shown mixed results. High operating costs and lower than expected production caused the company to reassess its position in Canada, with a decision to sell both the Alberta Plains and Red Earth assets.

In Austria, the Anshof-3 well continued to produce via an extended production test, but was shut in on 12/12/2023. Permanent production facilities have now been installed, and the well should come back on line in the second quarter 2024. An appraisal well was proposed and drilled on Anshof Field by the Operator in the 4th quarter of 2023. Xstate elected not to participate in the drilling of Anshof-2, and the well subsequently failed to intersect commercial hydrocarbons.

In the second half of 2023, Xstate began a focussed search to identify higher upside exploration opportunities. We look forward to updating shareholders in the near future on the results of this search.

Operational Highlights

- Total Net Production (after Royalty) of 135,515 boe for the year, split:
 - Canada 61,115 bbl
 - Austria 5,960 bbl
 - California 2,720 boe
- Total Proved and Probable Reserves at 31 December 2023 (net to Xstate) were:
 - Canada 1,344.7 Mbbbls
 - Austria 1,000.0 Mbbbls
 - 2P TOTAL 2,344.7 Mbbbls**

Canada: Alberta Producing Operations (25% WI)

Xstate started the year with a 25% working interest in the oil producing Red Earth property and a 35% working interest in the Alberta Plains property in Alberta, Canada. During the year we divested the Alberta Plains assets and acquired further leases surround Red Earth. Subsequent to the end of the reporting period, we divested the majority of the Red Earth prospects, whilst retaining only 25% working interest in the 10,400 gross acres and 2 wells that were acquired during the year.

Xstate’s share of Canadian Production for the year was 61,115 bbls (after Royalty).

XST share of Oil and Gas production in Canada	Financial Year 2023 (BBL) ¹	Financial Year 2022 (BOE) ²
XST WI share of Production (before Royalty)	74,517	186,825
XST WI share of Production (after Royalty)	61,115	131,498

¹No gas production in 2023 as Alberta Plains assets were divested

²Gas production converted to boe using 6:1 ratio

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Acquisition of Further Red Earth Properties

In the first quarter of 2023, Xstate acquired a 25% working interest in 10,240 gross acres (16 sections) for C\$750,000 (approximately A\$820,000) in a ground floor deal from Blue Sky Resources (BSR), operator of Xstate's Canadian Assets.

The acquisition included:

1. Two oil discovery wells that have previously been drilled, completed and recovered oil, which were equipped and put into production.
2. 10,240 gross acres of unencumbered crown land with no rehabilitation liabilities beyond the existing two wells.
3. 10 Keg River Formation prospects mapped within the acreage having similar technical characteristics to the existing discoveries and fields in the region.

The acquired acreage is adjacent to Xstate's South Senex leases within its Red Earth asset portfolio. The leases are covered by a 3D seismic survey acquired in 2002 which covers 30km². Only two wells have been drilled on the leases since the 3D was acquired, and both discovered and recovered oil from the Keg River Limestone.

Initial mapping by Operator BSR, has identified a further 10 prospects on the leases. These prospects all show seismic and structural characteristics similar to the two discoveries and fields in the local area in the Keg River reservoirs.

Divestment of Alberta Plains Properties

In July, Xstate announced it had entered into an agreement to sell its 35% working interest in the Alberta Plains asset for a consideration of C\$1,575,000 (approximately A\$1,750,000). The effective date of the transaction was 1 January 2023.

Divestment of Red Earth Properties

Subsequent to the end of the year reporting period, Xstate advised it had entered into an agreement to sell its 25% working interest in the Red Earth Assets to Blue Sky Resources Limited (Blue Sky) for cash consideration of US\$2,727,373 (approximately A\$4,165,000).

The sale consideration will be paid as follows:

- US\$100,000 non-refundable cash deposit paid on signing of sale agreement;
- US\$300,000 payable on 29 March 2024;
- US\$1,000,000 payable within 10 days of shareholder approval;
- US\$1,327,273 payable 60 days after the third tranche payment of US\$1,000,000.

The Effective Date of the transaction is 1 January 2024 with an anticipated Closing Date of 29 March 2024. The agreement was entered into after close of trading on 26 February 2024. Xstate will be retaining its 25% Working Interest in the Crest Jinn assets, which were acquired in early 2023 and re-entered during Q2 2023. The Company considers these assets prospective for further development and intends to work with the Operator on potential exploration programs in the Keg River area.

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For the year ended 31 December 2023

The Agreement is subject to the Company receiving shareholder approval under ASX Listing Rule 11.2 for disposal of a main undertaking. Xstate has consulted with ASX on this divestment and the divestment will be subject to Shareholder approval at the upcoming Annual General Meeting.

Canadian Assets Reserve Reports

Independent Reserves Reports were undertaken by Sproule on our Red Earth and Crest Jinn assets. The Report is dated 31 December 2023 and uses the average price deck from that day. Reserves are net to Xstate’s working interest, before and after royalty. The reserves values presented below as of 31 December 2023.

Red Earth and Alberta Plains Reserves Table 31 Dec 2023 – Sproule (BBL)	XST Reserves before Royalty (at 31-12-23)	XST Reserves after Royalty (at 31-12-23)	XST Reserves after Royalty (at 31-12-22)
Proved Producing (PDP)	659,500	580,400	1,067,400
Proved Developed Not Producing (PDNP)	463,900	411,600	471,000
Proved Undeveloped (PUD)	77,700	67,300	64,700
Total Proved (1P) Reserve	1,201,100	1,059,300	1,603,100
Probable Reserves (Prob)	333,200	285,400	530,300
Total Proved plus Probable (2P) Reserves	1,534,300	1,344,700	2,133,400

Additional Information Required under Chapter 5 of the ASX Listing Rules to be read as Notes to Reserve Table:

1. The Reserves were estimated by a qualified Independent Reserve Auditor Sproule and have been classified in accordance with SPE-PRMS. They have been reviewed in detail by XST’s Competent Person, Mr Gregory Channon. Mr Channon has more than 35 years technical, commercial and management experience in exploration appraisal and development of oil and gas. Mr Channon is a member of the American Association of Petroleum Geologists. Mr Channon has reviewed the information and supporting documentation referred to in this announcement and considers the reserve estimates to be fairly represented and consents to its release in the form and context in which it appears. His academic qualifications and industry memberships appear on the Company’s website and both comply with the criteria for "Competence" under clause 3.1 of the Valmin Code 2015. Terminology and standards adopted by the Society of Petroleum Engineers "Petroleum Resources Management System" have been applied in producing this document.

The Reserves Estimates are compiled from data and information supplied by the Operator of the Red Earth and Alberta Plains Properties, Blue Sky Resources Limited under the supervision of Mr Derrick Jewlal. Mr Jewlal has a Bachelor of Engineering Degree in Petroleum Engineering from Montana Technological University; he is a Registered Professional Engineer in the Province of Alberta and is qualified in accordance with ASX listing rule 5.41

2. QUALIFIED PETROLEUM RESERVES AND RESOURCE EVALUATOR REQUIREMENTS:

The reserves and resources information in this Australian Stock Exchange (“ASX”) document relating to oil fields in the Red Earth and Alberta Plains Properties are based on, and fairly represent information prepared by, or under the supervision of Mr Garry Finnis, Senior Manager, Engineering from Sproule. Mr Finnis has a Bachelor of Science Degree in Civil Engineering from University of Alberta. Mr Finnis is a Registered Professional Engineer (P. Eng) in the Province of Alberta and is qualified in accordance with ASX Listing Rule 5.41.

Sproule and its named employees have consented to be named in this manner in this release.

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3. Production trends and operating cost trends are well established, enabling the reliable prediction of future production by decline curve analysis, the estimation of future revenue from oil and gas sales as well as the forecasting of future costs. Economic life of reserves takes into account oil and gas revenues based on prevailing commodity pricing as well estimated operating costs, capital costs, royalties and mineral taxes.
4. The reserves are estimated at 31 December 2023 using Deterministic Methods based on Sproule estimates of future oil production using technical and economic data. Remaining oil production, based on analysis of well logs, geologic maps, seismic data, well test data. production data and property ownership information is multiplied by oil prices determined in the Sproule price deck (based on extensive market information and professional experience and expertise) at 31 December 2023. Operator supplied field Operating Costs based on actual and projected costs are deducted from revenues on a yearly basis to determine the economic limit of the wells and summed by individual field. Royalty payments are treated as Operating Cost deductions. Estimated individual field lives based on the above methods and 2P reserves range up to 28 years. These will vary over times due to oil prices, operating costs and other related imposts.
5. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, conclusions necessarily represent only informed professional judgement.
6. The Reserves have been estimated using Deterministic Methods and have been summed arithmetically and have not been adjusted for risk. The reserves are estimates and may increase and decrease as a result of market conditions, future operations including reactivations and fracture stimulations, enhanced recovery through waterfloods or changes in regulations, or actual reservoir performance. Estimates are based on certain assumptions including, but not limited to, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the Operator to recover the volumes, and that projections of future production will prove consistent with actual performance. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received, and costs incurred may vary from assumptions made.
7. The Canadian properties are non-operated.
8. Leases are Crown (Government awarded) leases. Most leases are Held By Production (**HBP**); annual rentals are paid on leases that are not HBP.
9. Royalties are paid to the Government based upon a formula where lower producing wells attract a lower royalty rate. Based upon the current gross production, the production royalty averages approximately 12%.
10. Reserves are mostly based on normal oilfield primary recovery methods using predominantly bottom hole rod insert pumps with conventional pumpjacks; 3 wells use electric submersible pumps (**ESP**). Some areas of the Red Earth fields are under secondary recovery using waterflood techniques.
11. Based on local reservoir experience further fracture stimulation and waterflooding may significantly increase reserves over time. The economic benefit and use of these techniques will be determined by economic analysis in the future.
12. No specialised processing of the oil is required.
13. Undeveloped Reserves are based on assumptions using the local cost of development wells to access the reserves, offset and analogue producing well performance and operating costs.

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14. The production is transported by tankers and owned gathering pipelines to third party access pipelines to various markets in Canada, primarily local refineries. Oil prices received are local free market prices.

PRMS Reserves Classifications used in this Release:

1P Denotes low estimate of Reserves (i.e., Proved Reserves).

2P Denotes the best estimate of Reserves. The sum of Proved plus Probable Reserves.

Proved Reserves are those quantities of Petroleum that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from known reservoirs and under defined technical and commercial conditions. If deterministic methods are used, the term "reasonable certainty" is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Developed Reserves are quantities expected to be recovered from existing wells and facilities.

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Developed Non-Producing Reserves include shut-in and behind-pipe reserves with minor costs to access.

Undeveloped Reserves are quantities expected to be recovered through future significant investments.

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Pricing Strip Tables used in Reserves reporting

Table P-2 Industry Average Natural Gas and Natural Gas By-Products Price Forecasts, Various Trading Points (\$Cdn) Effective December 31, 2023												
Year	Henry Hub Price (\$US/MMbtu)	IPE Britain NBP (\$US/MMbtu)	AECO-C Spot (\$/MMbtu)	Alliance Chicago Spot (\$/MMbtu)	B.C. Westcoast Station 2 (\$/MMbtu)	Huntingdon/Sumas 30-day Spot (\$/MMbtu)	Dawn (\$/MMbtu)	Ethane Plant Gate (\$/bbt)	Edmonton Propane (\$/bbt)	Edmonton Butane (\$/bbt)	Edmonton Pentanes Plus (\$/bbt)	Plant Gate Sulphur (\$/t)
Historical												
2019	2.53	4.84	1.80	3.20	1.04	6.47	3.22	5.00	17.16	23.71	71.39	37.54
2020	2.13	3.27	2.24	2.50	2.18	2.91	2.51	6.20	16.31	21.87	49.85	2.60
2021	3.72	16.42	3.64	5.74	3.27	5.00	4.55	10.08	43.39	51.64	85.88	68.82
2022	6.51	32.40	5.43	8.02	4.54	10.35	7.92	15.05	50.11	61.68	121.28	120.05
2023	2.66	12.68	2.64	3.12	2.23	5.58	3.19	7.33	29.59	45.62	102.80	17.78
Forecast												
2024	2.75	11.87	2.20	3.48	2.06	3.87	3.55	6.88	29.65	47.69	96.79	55.40
2025	3.64	13.11	3.37	4.87	3.25	5.27	4.94	10.76	35.13	48.83	98.75	73.03
2026	4.02	12.83	4.05	5.21	3.93	5.62	5.27	13.17	35.43	49.36	100.71	74.70
2027	4.10	12.65	4.13	5.32	4.01	5.73	5.39	13.44	36.14	50.35	102.72	76.95
2028	4.18	12.91	4.21	5.43	4.09	5.85	5.49	13.71	36.86	51.35	104.78	79.24
2029	4.27	13.17	4.30	5.54	4.17	5.97	5.60	14.00	37.60	52.38	106.87	81.57
2030	4.35	13.43	4.38	5.65	4.25	6.08	5.71	14.28	38.35	53.43	109.01	83.95
2031	4.44	13.70	4.47	5.77	4.34	6.21	5.83	14.58	39.12	54.50	111.19	86.38
2032	4.53	13.97	4.56	5.88	4.42	6.34	5.95	14.87	39.90	55.58	113.41	88.86
2033	4.62	14.25	4.65	6.00	4.51	6.46	6.07	15.17	40.70	56.70	115.67	90.63
Escalation Rate of 2.0% thereafter												
Contributors												
Sproule	•	•	•	•	•	•	•	•	•	•	•	•
GLJ	•	•	•	•	•	•	•	•	•	•	•	•
McDaniel	•	•	•	•	•	•	•	•	•	•	•	•

Table P-1 Industry Average Oil Price Forecasts, Inflation and Exchange Rates (\$Cdn) Effective December 31, 2023													
Year	Light Crude Oil					Heavy & Medium Oil					Operating Cost Inflation Rate (%/Yr)	Capital Cost Inflation Rate (%/Yr)	Exchange Rate (\$US/\$Cdn)
	WTI Cushing Oklahoma 40°API (\$US/bbl)	UK Brent 38°API (\$US/bbl)	Canadian Light Sweet Crude 40°API (\$/bbl)	Synthetic Crude Oil Edmonton 33.5°API (\$/bbl)	Cromer LSB 35° API (\$/bbl)	Hardisty Heavy 12°API (\$/bbl)	Western Canada Select 20.5°API (\$/bbl)	Hardisty Bow River 24.9°API (\$/bbl)	Cold Lake Blend 22.6° API (\$/bbl)				
Historical													
2019	57.02	64.17	68.87	75.32	69.68	55.11	58.77	59.10	57.57	-0.7%	0.4%	0.75	
2020	39.40	43.21	45.39	48.47	45.40	31.47	35.59	35.92	34.39	-5.0%	-5.0%	0.75	
2021	67.91	70.79	80.31	83.26	79.55	64.11	68.80	69.11	67.60	4.1%	7.9%	0.80	
2022	94.23	98.89	119.79	128.54	117.98	92.06	98.51	98.83	97.31	9.4%	12.0%	0.77	
2023	77.63	82.22	99.87	108.89	98.02	72.95	79.53	79.87	78.33	5.0%	5.0%	0.74	
Forecast													
2024	73.67	78.00	92.91	101.33	93.57	69.01	76.74	77.44	80.33	0.0%	0.0%	0.75	
2025	74.98	79.18	95.04	101.33	95.86	71.90	79.77	80.48	83.65	2.0%	2.0%	0.75	
2026	76.14	80.36	96.07	101.33	96.46	72.78	81.12	81.84	83.29	2.0%	2.0%	0.76	
2027	77.66	81.79	97.99	103.36	98.39	74.41	82.88	83.61	84.96	2.0%	2.0%	0.76	
2028	79.22	83.41	99.95	105.43	100.36	76.56	85.04	85.78	86.66	2.0%	2.0%	0.76	
2029	80.80	85.09	101.94	107.54	102.36	78.10	86.74	87.49	88.39	2.0%	2.0%	0.76	
2030	82.42	86.80	103.98	109.69	104.41	79.67	88.47	89.24	90.16	2.0%	2.0%	0.76	
2031	84.06	88.52	106.06	111.88	106.50	81.27	90.24	91.01	91.96	2.0%	2.0%	0.76	
2032	85.74	90.29	108.18	114.12	108.63	82.90	92.04	92.83	93.80	2.0%	2.0%	0.76	
2033	87.46	92.10	110.35	116.40	110.80	84.57	93.89	94.69	95.68	2.0%	2.0%	0.76	
Escalation Rate of 2.0% thereafter													
Contributors													
Sproule	•	•	•	•	•	•	•	•	•	•	•	•	
GLJ	•	•	•	•	•	•	•	•	•	•	•	•	
McDaniel	•	•	•	•	•	•	•	•	•	•	•	•	

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Austria: Anshof Production (20% WI)

The Anshof-3 well continued oil production through 2023 until December, when the well was shut in to install permanent production facilities. The well will be brought back on line early in the second quarter of 2024.

Interim production of up to 37,000 barrels (gross) was allowed under Austrian legislation prior to finalising a production license for the entire discovery area which is mapped to extend over an area of approximately 24 km².

An appraisal well was proposed and drilled on the Anshof Field by the Operator in the 4th quarter of 2023. Xstate elected not to participate in the drilling of Anshof-2, and the well subsequently drilled and failed to intersect commercial hydrocarbons.

XST share of Oil production in Austria	Financial Year 2023 (BBL)	Financial Year 2022 (BBL)
Gross sales before royalty	5,960	1,297

Anshof Field Independent Reserve Assessment

The Independent Reserve Assessment was undertaken via a Competent Person's Report (CPR) completed by independent consultants RISC. RISC was engaged to provide an independent reserve and resource assessment for the Anshof field located within the ADX-AT-II license for exploration, production and gas storage in Upper Austria (Molasse Basin). The RISC CPR has an effective date of 1 October 2022. XST holds a 20% participating interest in the Anshof field, with ADX being the Operator.

The RISC CPR was conducted in accordance with SPE-PRMS 2018 with an effective date of 1 October 2022 and has been adjusted for production during 2023. The results of the Anshof-2 well have yet to be incorporated. The 1P, 2P and 3P Reserves have been classified as Undeveloped Reserves (Development Justified) and additional 3C Contingent Resources (Development Pending) have also been identified. A summary of the gross oil and gas reserves and resources for the Anshof field is contained in the below table.

Anshof Field, Austria Reserves Table	XST Reserves and Resources after Royalty (at 31-12-23)			XST Reserves and Resources after Royalty (at 31-12-22)		
	Oil (MMbbls)	Gas (MMCF)	Oil Equiv. (MMboe)	Oil (MMbbls)	Gas (MMCF)	Oil Equiv. (MMboe)
Total Proved (1P) Reserve	0.1	19.2	0.1	0.1	19.2	0.1
Total Proved plus Probable (2P) Reserves	1.0	234.0	1.0	1.0	234.0	1.0
Total Proved plus Probable plus Possible (3P) Reserves	2.4	562.0	2.5	2.4	562.0	2.5
Total Contingent (1C) Resource	-	-	-	-	-	-
Total Contingent (2C) Resource	-	-	-	-	-	-
Total Contingent (3C) Resource	2.6	608	2.7	2.6	608	2.7

Additional Information Required under Chapter 5 of the ASX Listing Rules to be read as Notes to Austrian Reserve Table:

1. The notional reference point for reserves is the permit boundary or export line inlet.

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2. XST has a 20% participating interest in the Anshof discovery area and 20% entitlement to its gross resources.
3. Probabilistic methods have been used to determine oil in place and recoverable oil. Deterministic methods were used to develop production profiles and well numbers.
4. The 1P case is economically marginal but falls within the typical 10% audit tolerance. Therefore, volumes can be classified as reserves.
5. 1P reserves are based on a 3-well development of the 1P area. 2P reserves are based on a 14-well development of the 2P area. 3P reserves are an upside performance of the 2P wells. An additional 15 wells are estimated to fully develop the high case field area, with this incremental resource classified as contingent resources.
6. Average oil price over the life of the field used in the NPV calculation was USD 71 per bbl (RT 2022).
7. Where necessary, a conversion factor of 1.08 EUR per USD has been used.
8. Average oil price over the life of the field used in the NPV calculation was USD 71 per bbl (RT 2022).
9. Where necessary, a conversion factor of 1.08 EUR per USD has been used.
10. Associated gas resources include inerts sold with the gas. There is no fuel and flare.
11. Conversion factors are 7.3 bbl per tonne of oil and 5,800 MMscf per MMboe of gas.

PRMS 2018 Reserves Classifications used in this Report for Anshof Field

1P Denotes low estimate of Reserves (i.e., Proved Reserves). Equal to P1.

2P Denotes the best estimate of Reserves. The sum of Proved plus Probable Reserves.

3P Denotes high estimate of Reserves. The sum of Proved plus Probable plus Possible Reserves.

1. **Developed Reserves** are quantities expected to be recovered from existing wells and facilities.
 - a. *Developed Producing Reserves* are expected to be recovered from completion intervals that are open and producing at the time of the estimate.
 - b. *Developed Non-Producing Reserves* include shut-in and behind-pipe reserves with minor costs to access.
2. **Undeveloped Reserves** are quantities expected to be recovered through significant future investments.

A. **Proved Reserves** are those quantities of Petroleum that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from known reservoirs and under defined technical and commercial conditions. If deterministic methods are used, the term “reasonable certainty” is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

B. **Probable Reserves** are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

C. **Possible Reserves** are those additional Reserves that analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which

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is equivalent to the high-estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves that are located outside of the 2P area (not upside quantities to the 2P scenario) may exist only when the commercial and technical maturity criteria have been met (that incorporate the possible development scope). Standalone Possible Reserves must reference a commercial 2P project.

RISC Independence

RISC has no pecuniary interest, other than to the extent of the professional fees receivable for the preparation of their independent report, or other interest in the assets evaluated, that could reasonably be regarded as affecting our ability to give an unbiased view of these assets. RISC makes the following disclosures:

RISC is independent with respect to XST and confirms that there is no conflict of interest with any party involved in the assignment;

Under the terms of engagement between RISC and the Operator, RISC will receive a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, RISC has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report;

Neither RISC Directors nor any staff involved in the preparation of this report have any material interest in XST or in any of the properties described herein.

RISC has conducted an independent audit of the developed Reserves and consented to the inclusion of information specified as RISC audited values in this release.

California: Sacramento Basin (Various WIs)

Xstate continues to hold a significant acreage position in the Sacramento Basin.

Evaluations to monetize the previously reported Borba gas discovery continued with review of alternative developments, these include electricity production for an onsite data centre, hydrolysis of natural gas for Hydrogen generation for the local transport market or other means of transporting the gas molecules to local markets. Permitting of onsite facilities is being initiated.

Gas Production in Sacramento Basin Joint Venture

California Gas Flows (mcf)¹	2023	2022
Gross Production	115,077	143,546
XST Production after Mineral Royalty	14,691	16,318
Note 1: mcf = Thousand Cubic feet gas		

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Xstate Tenement Listing (as at 31 December 2023)

Project name	Category	Working Interest (WI)
Anshof 3 Discovery Area ⁺	Exploration	0-20%
Alvares Appraisal Well	Appraisal	25%
Alvares Project	Exploration & Appraisal	30%
Dempsey 1-15 Well	Exploration & Appraisal	10%
Dempsey AMI	Active leasing 3 large prospects	24%
Rancho Capay Field	Production	10%
Malton field	Production	30%
East Rice East Creek Field	Production	10%
Los Medanos Gas Field	Production	10%
Dutch Slough Field	Production	30%
Red Earth*	Production	25%
<p>⁺ As a result of Xstate's election for non-participation in the Anshof-2 well, it holds a nil working interest for that component of the Anshof Discovery Area.</p> <p>* Red Earth assets have been agreed to be divested post year end, refer ASX Announcement dated 29 February 2024</p> <p>Projects are continuously reviewed for their strategic fit and are expected to be modified over time to reflect industry conditions.</p>		

USA and Canadian exploration are conducted on leases granted by Mineral Right owners, in Xstate's case, primarily governments, private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles).

Financial results and condition

Net profit for the financial year ended 31 December 2023 after income tax was \$1,400,766 (2022: net loss \$3,477,096).

Canadian oil production operations netted \$6,827,157 of revenue to the Group (2022: \$19,411,200 incl. of gas production operations), with net profit before tax on operations of \$2,301,737 (2022: loss totalling \$1,703,964).

Austrian oil production operations netted \$691,179 of revenue to the Group (2022: \$163,001 other income on well test incomes), with a net profit on those operations of \$73,579 before tax (2022: loss of \$446,813)

The Group has working capital of \$337,283 (2022: deficit \$1,381,613) and net cash inflows for the year of \$158,169 (2022: \$96,023).

The Company remains acutely aware of the current economic climate and continues to assess costs incurred to ensure appropriate allocation of resources.

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Summary of results

	2023	2022
	\$	\$
Revenue from ordinary activities	7,518,356	19,411,200
Other income	293,659	630,810
Profit / (loss) before income tax	1,621,864	(3,351,663)
Income tax expense	(221,098)	(125,433)
Net Profit / (loss) for the year	1,400,766	(3,477,096)
Other comprehensive income	25,930	62,115
Total comprehensive profit / (loss) for the year	1,426,696	(3,414,981)
Profit / (loss) per share (cents)	0.44	(1.08)
Shares on issue at reporting date	321,519,150	321,519,150
Weighted average number of shares	321,519,150	321,519,150

Planned Activity - 2024

The Company will seek to continue with the activities outlined in the operations review in addition to assessing various opportunities to secure producing or high-quality and low risk speculative assets in on-shore North America and Europe, as well as any other viable opportunities that may arise globally.

Competent person statement

The technical information provided has been compiled by Mr Greg Channon, Non-executive Director of Xstate Resources Limited. Mr Channon is a qualified geologist with over 35 years technical, commercial and management experience in exploration, appraisal and development, and transportation of oil and gas and mineral and energy resources. Mr Channon has reviewed the results, procedures and data contained in this report and has consented to the inclusion of the above information in the form and context in which it appears.

Material Business Risks

The key risk factors affecting the Company are set out below. The occurrence of any one of the risks below could adversely impact the Company's operating or financial performance. It is noted that this is not an exhaustive list of risks that may potentially impact the Company.

Operating Risk

Sustained, unplanned interruption to production operations for either operator that the Company is involved with may impact Xstate's financial performance and its ability to fund its forward programs. The facilities in which Xstate currently has a non-operated working interest are subject to operating hazards associated with major accident events and weather events, which can result in a loss of hydrocarbon containment, diminished production, unbudgeted cost increases, environmental damage and harm to people or reputation. This risk extends to unexpected sub-surface outcomes.

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As Xstate is not the operator of the projects it is involved with, the operating risks are extended to include the performance of the operators. These risks could include inadequate resourcing or systems, misalignment of interests, inadequate capture or provision of data and information, poor financial position or unfavourable or inadequate agreement with the operator. Consequences of poor performance by an operator could extend to operational incidents, financial loss, loss of opportunity, non-compliance, legal disputes or less than optimal financial returns from the field.

Xstate seeks to manage and mitigate the risks around performance of the operator by entering into ventures with operators who have a demonstrated history of competencies of operation and financial capacity. Through its due diligence, Xstate seeks to ensure that the operator's reputations are sound and that Xstate's interests are aligned before committing to participation. The Board of Directors is actively engaged with regular communication with each Operator as to the status of operations and planned activities as part of the risk management process.

Commodity Price Risk

The prices of crude oil and natural gas are volatile. As an entity that holds working interests in production operations, changes in the prices of these commodities will affect the Company's financial position, financial results, cash flows, access to capital and the ability for the Company to grow and assess further exploration opportunities. Commodity prices have in recent years been characterized by significant price fluctuations driven by the market's expectations of demand for oil and natural gas, which are influenced by geopolitical events and other global phenomena beyond Xstate's control, including global events such as the COVID-19 pandemic and the Russia-Ukraine war.

The impact of such global events can affect global demand for oil and gas, and the market's expectations on future demand, for long periods of time even after the event has subsided. Although the oil price has appeared to reach a level of stability in global markets toward the conclusion of calendar 2022, there is no certainty as to whether current or new global events could have an impact on the demand or supply of oil moving forward.

As Xstate is not the operator of its working interests, the Company has not entered into any hedging arrangements to mitigate the downside commodity price risk.

Hydrocarbon spills

Oil and gas operations involve the production, storage and transport of the produced oil and gas as well as waste materials. Hydrocarbon spills may lead to damage to the environment, as well as potential safety issues and damage to Xstate and our respective operators' reputation and fines. Hydrocarbon spills are managed by each operator through a system of rigorous internal procedural adherence in combination with technological inputs to rapidly identify and address any occurrences to reduce the environmental impact as best as possible.

Regulatory and Political

Exploration for, and development and exploitation of, oil and gas in Canada and Austria is subject to numerous laws and regulations at both federal and or provincial levels. These include areas of taxation, environmental protection and operational regulatory compliance. Existing laws and regulations, as currently interpreted or reinterpreted in the future, or future laws and regulations could potentially adversely impact the Company. Compliance with such laws and regulations may significantly increase the Company's operating expenses and any failure to comply may result in material penalties and fines to the Company or the Operators. Whilst Canada and Austria are considered to be politically stable, changes in governmental regulations and policies (whether through change in governments or change in policy from existing governments) may adversely affect the financial performance or the current and proposed operations of both the Company and the Operator of the working interests.

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The ability to develop and produce oil and gas, as well as industry profitability generally, can be affected by such changes, which are beyond the control of the Company and the Operators of the working interests. As such, future financial performance and future operations may thereby be materially adversely affected.

Reserves and resource estimation

Calculation of recoverable oil and gas reserves and resources contain significant uncertainties which are inherent in the reservoir geology, well data, operating costs and oil prices and requirement management to make a series of assumptions for the purposes of preparing such reserve reports.

Although such assumptions may be reasonable at the time they are made and may be subject to review by independent reserves auditors, future drilling results and costs and oil prices may differ significantly from those assumptions. There is a risk that resource estimations will not convert into reserves or any actual production may significantly vary from estimates.

Xstate manages the risks associated with reserves estimates through by appropriate qualified Board representatives and the engagement of independent auditors on at least an annual basis to certify reserves.

Reliance on Key Personnel

Xstate's success depends in large measure on certain key personnel. The loss of the services of such key personal may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The contributions of the existing management team to the immediate and near-term operations are likely to be of central importance. There can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the implementation, development and operation of its business strategy.

In addition, it is noted that Xstate is the non-operator of it's key working interests held. Having suitably qualified and reputable operating teams in place, with appropriate relationships and experience for both Canadian and Austrian operations is critical to Xstate's success as it moves into the future. The loss of the services of members of the Canadian or Austrian operating teams could have an adverse impact on the Company's operations, particularly in the short-term until suitable replacements could be recruited. Xstate does not maintain or plan to obtain any insurance against the loss of any key management personnel.

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DIRECTORS' REPORT

The Directors present their report together with the financial statements of Xstate Resources Limited (the Company) and of the Group, being the Company and its subsidiaries for the financial year ended 31 December 2023 and the auditor's report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Name and independence status	Experience, qualifications, special responsibilities and other directorships
<p>Andrew Childs Executive Chairman Qualifications: BSc.</p> <p><i>Interest in shares and options</i> Shares: 2,500,000 Options: 4,000,000 Appointed 22 April 2020</p>	<p>Mr Childs is a petroleum geologist with over 35 years of Oil and Gas experience, working in Technical and Commercial roles for small to mid-capped Companies listed on the ASX, AIM and TSX markets.</p> <p>Mr Childs is the Non-executive Chairman of Sacgasco Limited and formerly a Non-executive Director of ADX Energy Limited.</p> <p>Mr Childs is Chair of the Nominations and Remuneration Committee and a member of the Audit and Risk Management Committee.</p>
<p>Greg Channon Non-executive Director Qualifications: BSc.(Hons)</p> <p><i>Interest in shares and options</i> Shares: 528,493 Options: 4,000,000 Appointed 17 August 2020</p>	<p>Mr Channon is a geologist with over 35 years of global oil and gas experience in a variety of technical and leadership roles. He is currently Executive Chairman of RL Energy, and a Non-executive Director of Samson Oil and Gas Limited.</p> <p>During his career, Mr Channon has worked with a range of E&P companies including Delhi, Santos, Fletcher Challenge Energy, Shell, Swift Energy, BrightOil and Pathfinder. He has lived and worked in Australia, New Zealand, USA, Hong Kong, China and Africa.</p> <p>Mr Channon has a large range of diverse oil and gas expertise, including exploration, operations, development, production, economics, commercial negotiations, new ventures, business development and IPO start-ups. He has sat on the Board of Directors of companies listed on the ASX, NYSE, TSX and HKSE.</p> <p>Mr Channon is Chair of the Audit and Risk Management Committee and a member of the Remuneration and Nomination Committee.</p>
<p>Andrew Bald Non-executive Director Qualifications: BEc.</p> <p><i>Interest in shares and options</i> Shares: 3,166,108 Options: 4,000,000 Appointed 6 June 2022</p>	<p>Mr Bald has over 35 years of experience in financial markets and since branching out on his own in 2003, has raised capital for, and listed, a number of junior oil & gas and mineral exploration companies. From 2013 through 2016, he was managing director of Burleson Energy, an oil and gas explorer with production in Texas, USA, and he has also been on the board and acted as company secretary of a number of other ASX listed companies.</p> <p>Mr Bald is the founder and Executive Director of Panthea Capital, a boutique corporate advisory company that specialises in raising capital for ASX listed companies, advising companies in relation to IPO process and providing strategic planning, risk management and financing advice.</p> <p>Mr Bald is a Non-executive Director of AXP Energy Limited.</p> <p>Mr Bald is Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee.</p>

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2. COMPANY SECRETARIES

Mr David McArthur is a Chartered Accountant and was appointed to the position of Company Secretary on 29 October 1999. Mr McArthur has over 30 years' experience in the corporate management of publicly listed companies.

Jordan McArthur is a Chartered Accountant and was appointed to the position of joint company secretary on 17 April 2018. Mr McArthur has 13 years corporate and financial experience in Australia and the United Kingdom.

3. DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2023, and the number of meetings attended by each Director was:

Director	Full meetings of Directors		Meeting of Audit and Risk Management Committee	
	No. of meetings attended	No. of meetings held whilst a Director	No. of meetings attended	No. of meetings held whilst a Director
Andrew Childs	5	5	2	2
Greg Channon	5	5	2	2
Andrew Bald	5	5	2	2

4. PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was oil and natural gas exploration and production.

5. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial position of the Group and its strategies and prospects is set out in the Review of Operations at the beginning of this Annual Report.

Significant changes in the state of affairs

On 13 March 2023, Shareholders approved a 10-for-1 consolidation of the Company's issued securities. On 17 March 2023, the Company's ordinary shares were consolidated from 3,215,181,651 to 321,519,150 and outstanding options on issue at the time were consolidated from 115,500,000 to 11,550,000. The exercise price of those options transitioned from \$0.005 to \$0.05, with no change to the expiry date.

Other than the matters above and those discussed in section 8 of the Directors Report, there have been no other significant changes in the state of affairs for the entity.

6. DIVIDENDS

The Directors recommend that no dividend be provided for the year ended 31 December 2023 (2022: Nil).

7. LIKELY DEVELOPMENTS

The Group will continue to pursue its strategy to further develop its exploration portfolio in California, USA, it's portfolio of working interests in relation to production assets in Alberta, Canada, and the Molasse Basin, Austria, whilst also assessing any other viable global oil and gas exploration opportunities that are presented to the Board.

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8. EVENTS SUBSEQUENT TO REPORTING DATE

On 29 February 2024, the Company announced that it had entered into an agreement to sell its 25% working interest in the Red Earth Assets, located in Alberta, Canada, to Blue Sky Resources Limited for cash consideration of US\$2.73m. The Effective Date of the transaction was agreed as 1 January 2024. Xstate is currently seeking shareholder approval for the transaction, with a resolution to be included in the Company's Annual General Meeting to approve the transaction under the requirements of ASX Listing Rule 11.2.

The Red Earth assets in their entirety are considered a distinct disposal group, and further information about the assets disposed and liabilities discharged is contained in notes 15 and 17 respectively. The Red Earth assets formed part of the Canadian Oil Production segment identified in note 9. The retention of the Crest Jinn wells means that the disposal is not resulting in a discontinued operation.

The Company resolved to divest the Red Earth assets post year-end in light of operational performance across the preceding 3 financial years, the ongoing restoration commitments associated with the ageing assets and a requirement for recapitalisation of the Company to enable it to seek alternate opportunities for exploration. To the date of this report, the Company has received a total of US\$400,000 in settlement of the first two tranches of consideration, noted in the Review of Operations on page 4.

On 31 January 2024, 11,550,000 unlisted options with an exercise price of 5 cents expired unexercised.

Other than the matters identified above, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company in future financial years.

9. ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in relation to its exploration and production activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

10. SHARE OPTIONS

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price cents	Number of shares
30-Jun-26	3	14,750,000

All unissued shares are ordinary shares of the Company.

These options do not entitle the holder to participate in any share issue of the Company.

Further details in relation to the share-based payments to directors are included in the Remuneration Report.

Shares issued on exercise of options

During the financial year, no options were converted into fully paid ordinary shares. Since the end of the financial year, no options have been converted into fully paid ordinary shares.

Options expired

During the 2023 reporting period, no options expired (2022:7,500,000 options expired). Since the end of the reporting period, 11,550,000 options with an exercise price of 5 cents expired unexercised on 31 January 2024.

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid an insurance premium of \$43,749 (2022: \$43,840) to insure the Directors and Key Management of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The Group has agreed to indemnify each of the Directors and the Company Secretaries of the Company and its controlled entities, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Company Secretaries of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

No agreements have been entered into to indemnify the Group's auditors against any claims by third parties arising from their report on the Annual Financial Statements.

12. NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of these non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the remuneration for non-audit services provided by the auditor of the Company, BDO Audit (WA) Pty Ltd, and its related practices during the year are set out below:

	2023	2022
	\$	\$
Taxation services		
<i>BDO Corporate Tax (WA) Pty Ltd</i>		
Tax compliance and advisory services	10,166	18,528
Total remuneration for non-audit services	10,166	18,528

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13. PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

14. REMUNERATION REPORT - AUDITED

The Directors present the Company's 2023 Remuneration Report prepared in accordance with the Corporations Act 2001. The Report sets out the detailed remuneration information for Non-Executive Directors, Executive Directors and other Key Management Personnel (KMP) of the Group.

The report contains the following sections:

- (a) Remuneration governance
- (b) Remuneration consultants
- (c) Executive remuneration strategy and framework
- (d) Board and management changes
- (e) Service contracts
- (f) Non-executive director remuneration
- (g) Key management personnel remuneration
- (h) Analysis of bonuses included in remuneration
- (i) Other KMP disclosures
- (j) Voting and comments made at the Company's 2023 Annual General Meeting

(a) Remuneration governance

Decisions and determinations regarding remuneration of Directors and Key Management Personnel is the responsibility of the Remuneration and Nomination Committee.

(b) Remuneration consultants

The Company did not engage any remuneration consultants during the year as it was not considered necessary. No changes were made to the remuneration of directors.

(c) Executive remuneration strategy and framework

Remuneration is referred to as compensation throughout this report. Compensation levels for key management personnel of the Group are set to attract, retain and motivate appropriately qualified and experienced Directors and Executives.

(c) Executive remuneration strategy and framework (continued)

As the Group's principal activities during the year were assessment of new ventures, exploration / evaluation and development operations, measurement of remuneration policies against financial performance is not considered relevant. The measurement of remuneration policies considered a range of factors including budget performance, delivery of results and timely completion of development programmes.

The objective of the Group's reward framework is to ensure that remuneration policies and structures are fair and competitive. The Board ensures that remuneration satisfies the following criteria for reward:

- competitiveness and reasonableness;
- transparency;
- attracts and retains high calibre executives; and
- rewards capability and experience.

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14. REMUNERATION REPORT – AUDITED (continued)

Executive remuneration mix

The remuneration of a Managing Director or any other KMP can be structured as a mix of fixed remuneration and variable “at risk” remuneration through short-term and long-term incentive components.

Fixed compensation

Fixed compensation consists of base compensation plus employer contributions to superannuation funds (unless otherwise stated). Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Group and compares compensation to ensure it is comparable and competitive within the market in which the Group operates.

Fixed compensation is not “at risk” but is appropriately benchmarked and set with reference to role, responsibilities, skills and experience.

Performance-linked compensation

Performance-linked compensation can consist of both short-term and longer-term remuneration. Performance linked remuneration is not based on specific financial indicators such as earnings or dividends as the Group continues to focus upon efforts in the exploration and development stage of projects. Vesting of long-term incentives is based on the share price performance of the Group, which is considered an appropriate measure of the outcome of overall performance. There is no separate profit-share plan.

(c) Executive remuneration strategy and framework (continued)

Long-term incentive

Long-term incentives (LTIs) can comprise share options and/or performance rights (PRs), which are granted from time to time to encourage sustained performance in the realisation of strategic outcomes and growth in shareholder value. Options and rights are granted for no consideration and do not carry voting rights or dividend entitlements.

Consequences of performance on shareholder wealth

The overall level of key management personnel compensation takes into account the performance of the Company over a number of years, although no remuneration is directly linked with financial performance.

Financial performance in respect of the current financial year and the previous four financial years is detailed below:

Shareholder returns	2023	2022	2021	2020	2019
Total Comprehensive Profit / (loss) for year (\$)	1,426,696	(3,414,981)	(4,493,191)	(646,076)	(715,275)
Basic EPS (cents)	0.44	(1.08)	(1.65)	(0.04)	(0.06)
Share price at year end (cents) ¹	1.3	2.0	4.0	5.0	3.0
Market capitalisation (\$)	4,179,748	6,430,363	12,860,727	9,056,204	4,276,473
Net tangible assets / (liabilities) (\$)	2,168,193	353,332	3,802,235	704,300	(105,189)
NTA Backing (cents)	0.67	0.11	1.18	0.39	(0.07)

¹ Note that for the purposes of consistency of comparative information, the share prices identified above for 2019 through 2022 have been adjusted to reflect accurately the 10-for-1 consolidation of the Company’s securities that took place in March 2023.

During the financial years noted there were no dividends paid or other returns of capital made by the Company to shareholders.

14. REMUNERATION REPORT – AUDITED (continued)

The Group's financial performance is impacted by a number of factors. As the Group continues to have a predominant focus upon exploration activities, the share price and thus the Company's market capitalisation is still considered to be a strong indicator of the Group's overall performance. Cash flows from the operation of producing interests are utilised to fund these exploration activities, rather than the Company being reliant on shareholder funding to the same degree it has historically.

(d) Board and management changes

During the year, no changes occurred to the Board or management personnel.

(e) Service contracts

On appointment to the Board, all Non-executive Directors enter into a letter of appointment with the Company specifying their functions and duties as a Director.

Executive remuneration and other terms of contractual employment are formalised in service agreements. The service agreements outline the components of compensation paid to Executives and key management personnel (KMPs) but do not prescribe how compensation levels are modified year by year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performance by KMPs and any changes required to meet the principles of the compensation policy. During the year, no change in Director remuneration occurred.

(f) Non-Executive Directors

Total compensation for all Non-Executive Directors, last voted upon by shareholders on 19 May 2011, is not to exceed \$400,000 per annum and is based on comparative roles in the external market. The base fee for all Non-executive Directors, for the year ended 31 December 2023 was \$60,000 per annum. Fees and payments to Non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed by the Remuneration and Nomination Committee and they do not receive cash performance related compensation.

In addition to their base fees, Non-Executive Directors may also receive payment for consultancy services at \$1,500 per day plus reimbursable expenses for days worked over and above those expected to be worked in consideration of Non-Executive Directors fees. The contracts have a 12 months' termination clause.

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XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2023

14. REMUNERATION REPORT – AUDITED (continued)

(g) Key management personnel remuneration 2023

Name		Short-term employee benefits			Post- employment benefits	Share based payments		Total
		Salary and fees (A) \$	Non-monetary benefits (B) \$	Total \$	Superannuation \$	Shares \$	Options (C) \$	
Executive Directors								
Andrew Childs	2023	54,177	14,583	68,760	5,823	-	19,360	93,943
	2022	50,786	14,613	65,399	5,214	-	81,199	151,812
Non-Executive Directors								
Greg Channon	2023	60,000	14,583	74,583	-	-	19,360	93,943
	2022	56,000	14,613	70,613	-	-	81,199	151,812
Andrew Bald	2023	60,000	14,583	74,583	-	-	19,360	93,943
	2022	35,000	8,328	43,328	-	-	-	43,328
David McArthur ¹	2023	-	-	-	-	-	-	-
	2022	32,430	6,286	38,716	1,993	-	81,199	121,908
Total key management personnel remuneration	2023	174,177	43,749	217,926	5,823	-	58,080	281,829
	2022	174,216	43,840	218,056	7,207	-	243,597	468,860

¹ David McArthur received \$12,500 in remuneration for Company Secretarial services provided to the Company through to his resignation as a Director on 6 June 2022.

14. REMUNERATION REPORT – AUDITED (continued)

(g) Key management personnel remuneration (continued)

Notes in relation to the table of Directors' remuneration

(A) Includes movements in annual leave accrual for Executive Director.

During the reporting period certain key management persons invoiced for commercial, arms-length consulting services in addition to duties required as Directors. The total quantum of these transactions as disclosed in note 21 of the notes to the consolidated financial statements was:

- Andrew Childs \$25,500 (2022: \$54,000)
- Greg Channon \$1,500 (2022: \$15,000)
- Andrew Bald \$4,500 (2022: \$nil)

(B) Comprises Directors and Officers insurance premiums.

(C) The fair value of options granted was determined using the Black-Scholes method at grant date. 12,000,000 options were issued to Directors during 2023, as approved by shareholders at the AGM held on 31 May 2023 (2022: 10,500,000 options).

(h) Analysis of bonuses included in remuneration

No short-term incentive cash bonuses have been awarded as remuneration to Directors of the Company for year ended 31 December 2023 (2022: nil).

(i) Other KMP disclosures

All options refer to options over ordinary shares of Xstate Resources Limited, which are exercisable on a one-for-one basis under the Employee Share Option Scheme.

Options over equity instruments granted as compensation

During the reporting period, 12,000,000 options were issued to Directors of the Company (2022: 10,500,000). Details of this option issuance are disclosed in note 19 to the financial statements. The options have an exercise price of 3c per option, expiring on or before 30 June 2026 with a valuation per option of 0.48c per option.

Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation. (2022: nil).

Options over equity instruments

The movement during the reporting period, by number of options over ordinary shares of Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is identified in the table on the following page:

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XSTATE RESOURCES LIMITED
DIRECTORS' REPORT
For the year ended 31 December 2023

14. REMUNERATION REPORT – AUDITED (continued)

(i) Other KMP disclosures (continued)

	Held at 1 January 2023	Granted	Expired / Lapsed	Exercised / Sold / Effect of Consolidation*	Held at 31 December 2023	Vested and exercisable 31 December 2023
Andrew Childs	35,000,000	4,000,000	-	(31,500,000)	7,500,000	7,500,000
Greg Channon	35,000,000	4,000,000	-	(31,500,000)	7,500,000	7,500,000
Andrew Bald	-	4,000,000	-	-	4,000,000	4,000,000

* Option holdings for Messrs Childs and Channon were consolidated on 17 March 2023 following shareholder approval of a 10-for-1 capital consolidation on 13 March 2023.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Xstate Resources Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 January 2023	Purchases / Conversions	Sales	Effect of Consolidation*	Held at 31 December 2023
Andrew Childs	25,000,000	-	-	(22,500,000)	2,500,000
Greg Channon	5,284,930	-	-	(4,756,437)	528,493
Andrew Bald	31,661,076	-	-	(28,494,968)	3,166,108

* Shareholdings of Directors were consolidated on 17 March 2023 following shareholder approval of a 10-for-1 capital consolidation on 13 March 2023.

(j) Voting and comments at the Company's 2023 Annual General Meeting

The Company received 99.98% of "for" votes on its remuneration report for the 31 December 2022 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

THIS IS THE END OF THE REMUNERATION REPORT – AUDITED.

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15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001, is included in the Directors' Report for the financial year ended 31 December 2023.

This Directors' Report is made in accordance with a resolution of the Directors.



ANDREW CHILDS
Executive Chairman

Signed at Perth, Western Australia this 28th day of March 2024.

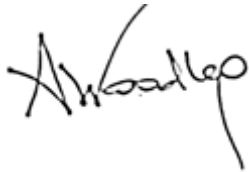
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DECLARATION OF INDEPENDENCE BY ASHLEIGH WOODLEY TO THE DIRECTORS OF XSTATE RESOURCES LIMITED

As lead auditor of Xstate Resources Limited for the year ended 31 December 2023, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Xstate Resources Limited and the entities it controlled during the period.



Ashleigh Woodley
Director

BDO Audit (WA) Pty Ltd

Perth

28 March 2024

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023**

	Note	2023 \$	2022 \$
Assets			
Cash and cash equivalents	14	995,260	814,463
Trade and other receivables		6,439	4,548
Current tax asset		-	134,231
Prepayments		22,299	206,732
Inventories		84,295	155,233
Total current assets		1,108,293	1,315,207
Oil and gas assets	15	11,625,726	30,499,918
Total non-current assets		11,625,726	30,499,918
Total assets		12,734,019	31,815,125
Liabilities			
Trade and other payables	16	(232,034)	(1,433,190)
Current tax liability		(217,039)	-
Borrowings		(4,886)	-
Employee benefits		(1,488)	(1,425)
Site restoration provision	17	(512,005)	(1,262,205)
Total current liabilities		(967,452)	(2,696,820)
Site restoration provision	17	(9,569,637)	(28,419,462)
Total non-current liabilities		(9,569,637)	(28,419,462)
Total liabilities		(10,537,089)	(31,116,282)
Net assets		2,196,930	698,843
Equity			
Share capital	18	58,083,830	58,083,830
Reserves		612,821	515,500
Accumulated losses		(56,499,721)	(57,900,487)
Total equity attributable to equity holders of the Company		2,196,930	698,843

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

		2023	2022
		\$	\$
Revenue from operating activities			
Production income	10	7,518,356	19,411,200
Other income	10	293,659	630,810
Interest income		12,681	5,456
Expenses			
Cost of sales		(5,801,165)	(17,192,523)
Other operating expenses		-	(192,899)
Exploration expenditure		(253,156)	(900,681)
Impairment charge	15	(713,144)	-
Personnel expenses	11	(281,829)	(468,860)
Administrative expenses		(103,944)	(86,016)
Professional fees		(387,891)	(397,481)
Business Development		(3,394)	-
Depreciation and amortisation	15	(568,177)	(3,388,502)
Finance expenses		(327,988)	(736,849)
Other expenses		(9,443)	(30,013)
Gain on disposal of asset	15	2,250,747	-
Foreign exchange loss		(3,448)	(5,305)
Profit / (loss) before income tax expense		1,621,864	(3,351,663)
Income tax expense	12	(221,098)	(125,433)
Profit / (loss) for the year		1,400,766	(3,477,096)
Other Comprehensive Income			
Exchange differences on translation of foreign operations		25,930	62,115
Total Comprehensive Profit / (Loss) for the year		1,426,696	(3,414,981)
Profit / (Loss) per share (cents per share)			
Basic	13	0.44	(1.08)
Diluted	13	0.42	(1.08)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023**

	Note	Share capital	Foreign currency translation reserve	Options reserve	Accumulated losses	Total
		\$	\$	\$	\$	\$
Balance at 1 January 2023		58,083,830	247,542	267,958	(57,900,487)	698,843
Total comprehensive income for the year						
Profit for the year		-	-	-	1,400,766	1,400,766
Other comprehensive income for the year						
Foreign exchange translation difference on foreign operations		-	25,930	-	-	25,930
Total comprehensive loss for the year		-	25,930	-	1,400,766	1,426,696
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Share based payment transactions	19	-	-	71,391	-	71,391
Expiration of options		-	-	-	-	-
Total contributions by owners		-	-	71,391	-	71,391
Balance at 31 December 2023		58,083,830	273,472	339,349	(56,499,721)	2,196,930

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**XSTATE RESOURCES LIMITED
FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share capital	Foreign currency translation reserve	Options reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2022	58,083,830	185,427	472,853	(54,896,244)	3,845,866
Total comprehensive income for the year					
Loss for the year	-	-	-	(3,477,096)	(3,477,096)
Other comprehensive income for the year					
Foreign exchange translation difference on foreign operations	-	62,115	-	-	62,115
Total comprehensive loss for the year	-	62,115	-	(3,477,096)	(3,414,981)
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Share based payment transactions	-	-	267,958	-	267,958
Expiration of options	-	-	(472,853)	472,853	-
Total contributions by owners	-	-	(204,895)	472,853	267,958
Balance at 31 December 2022	58,083,830	247,542	267,958	(57,900,487)	698,843

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 \$	2022 \$
Cash flows from operating activities			
Receipts from customers		295,159	2,406,955
Payments to suppliers and employees		(554,587)	(722,597)
Refund on / (Payments for) exploration and evaluation		34,331	(1,042,102)
Interest paid		(1,313)	(31)
Interest received		12,681	5,456
Income taxes refunded / (paid)		135,498	(546,740)
Net cash (used in) / from operating activities	14	(78,231)	100,941
Cash flows from investing activities			
Payments for production interest acquisition		(845,597)	-
Receipts from production interest divestment		1,124,930	-
Net cash from investing activities		279,333	-
Cash flows from financing activities			
Repayment of borrowings		(42,933)	(4,918)
Net cash used in financing activities		(42,933)	(4,918)
Net increase in cash and cash equivalents		158,169	96,023
Cash and cash equivalents at 1 January		814,463	724,391
Effect of exchange rate fluctuations on cash held		22,628	(5,951)
Cash and cash equivalents at 31 December	14	995,260	814,463

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

1 GENERAL INFORMATION

The Company is a for-profit, listed public company domiciled in Australia. The Company's registered office is located at Level 1, 31 Cliff Street, Fremantle, WA, 6160.

The Group is primarily involved in oil and natural gas exploration, having exploration and evaluation interests in the United States of America, and holding working interests in oil production assets in Canada and Austria.

The consolidated financial statements of the Group as at and for the year ended 31 December 2023 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and were authorised for issue by the Board of Directors on 28 March 2024. The financial statements are general purpose financial statements which:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards ("AASBs") and other authoritative pronouncements of the Accounting Standards Board ("AASB"). The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been prepared on a historical cost basis, except for share-based payments and financial assets which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency;
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2023; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective.

2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3 GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the normal course of business.

At balance date, the Group had net assets of \$2,196,930 (2022: \$698,843) and working capital of \$140,842 (2022 deficit: \$1,381,613). During the year ended 31 December 2023, the Group recorded overall cash outflows from Operating Activities of \$78,231 (2022 inflow: \$100,941).

During the financial year, the Group has received reduced cash inflows from oil production operations in Canada, predominantly as a result of operational activities of acquiring and re-entering the Crest Jinn wells, and for routine lifecycle maintenance carried out during the year on several larger oil assets.

3 GOING CONCERN (continued)

Post year-end, the Company has agreed to divest of the Red Earth assets for US\$2.73m, which after accounting for taxes and transactional costs will provide substantial recapitalisation for the Company to seek further high impact exploration and appraisal opportunities.

Despite ongoing operations in Canada and Austria, the conditions present indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Company acknowledges the need to source further funding above the amounts presented as at 31 December 2023 to be able to meet planned and committed operating expenditures and discharge its current liabilities. The Directors are confident of sourcing these funds and this is predicated on several factors, namely:

- Receipt of cash from disposal of the Red Earth Assets;
- Positive cash flows from oil production operations in Austria;
- The ability to raise capital from existing shareholders or a placement to sophisticated investors, should the above not prove sufficient for expenditures incurred; and/or
- Via successful sale of rights to exploration or production assets held by the Group.

The Directors are confident that a combination of these strategies will sufficiently fund operations for the year.

Should, for any reason, the Group be unsuccessful in sourcing further funding, there is a material uncertainty that exists that may cast significant doubt as to whether the Group will be able to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. In this instance, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

4 FOREIGN CURRENCY TRANSLATION

The financial report is presented in Australian dollars, which is Xstate's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period and exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency translation reserve in equity. The foreign currency translation reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

5 IMPAIRMENT

Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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5 IMPAIRMENT (continued)

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

During the year ended 31 December 2023, an impairment loss was recognised on the Company's Canadian operations, for a shut-in production well as identified in note 15.

6 ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are included in the following notes:

Judgements

Going concern - note 3

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The most significant estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities relate to:

Oil and Gas assets (note 15)

The Group assesses each asset or CGU in each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value-in-use. The assessments require the use of estimates and assumptions, such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Reserve estimates

The estimated quantities of proven and probable hydrocarbons reported by the Group are integral to the calculation of depletion expense, assessments for impairment of assets, provision for restoration and the recognition of deferred tax assets due to changes in expected future cash flows. Reserve estimates require interpretation of complex and judgement geological and geophysical models in order to make an assessment of the size, share, depth and quality of a reservoir, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

6 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical accounting estimates and assumptions (continued)

Depletion of Oil and Gas assets (note 15)

The Group recognises depreciation on its Oil and Gas assets on a unit-of-production basis that is considered proportional to the depletion of proven and probable hydrocarbon reserves for the field. Oil and gas assets are depreciated by area of interest in the proportion of actual production for the financial period to the proven and probable hydrocarbon reserves of the field. As such, the estimate of reserve quantities directly impacts the calculation of depreciation recognised on the Company's Oil and Gas assets.

Provisions for site restoration (note 17)

The Group estimates the future removal and restoration costs of petroleum production facilities, wells, pipelines and related assets at the time of installation of the assets, or at the time of acquisition of the assets, and reviews these assessments periodically. In most instances, the removal of these assets will occur well into the future. The estimate of future removal costs therefore requires management to make judgements around the timing of the required restoration, rehabilitation and decommissioning, as well as the discount rate. The carrying amount of the provision for restoration is disclosed in note 17. As the provision for restoration identifies the cost of decommissioning, this cost is recognised under AASB 116 as forming part of the asset value recognised in note 15. As such, the estimation of provisions for restoration directly impact the value of oil and gas assets presented.

Following the significant volatility in yields and inflation rates seen throughout the course of the financial year, the Group revised the discount and inflation rate used in quantifying the restoration provisions from amounts recognised upon acquisition of the oil and gas working interests during the financial year.

Share-based payments (note 19)

Share-based payment transactions with Directors, employees and consultants are measured by reference to the fair value of the securities at the date they were granted. The fair value of the expense to be recognised in the statement of comprehensive income is ascertained using an appropriate pricing model, generally a Black-Scholes pricing mechanism, depending on the terms and conditions upon which the equity securities were granted. The Group also applies assumptions around the likelihood of such securities vesting which will have an impact on the expense recorded during the financial year. The total number of equity securities outstanding is disclosed in the Director's Report, and the measurement of share-based payments entered into during the financial period are disclosed in note 19.

Recoverability of deferred tax assets (note 12)

The recoverability of deferred tax assets is based on the probability that future taxable amounts will be available to utilise those temporary differences and losses. The Group has not recognised deferred tax assets in respect of some tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income.

Estimates of future taxable income are based on forecast cash flows from operations and application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results. The deferred tax asset associated with historical losses recorded in the Group's Australian parent entity continue not to be recognised on the basis that it is not expected that the Group's Australian-based operations would generate sufficient taxable profits to fully utilise those losses recorded.

7 NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

There were no new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) that were considered relevant to the Group’s operations and effective for the financial year ended 31 December 2023.

There are no other Australian Accounting Standards that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years.

8 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the Group for the annual reporting period ended 31 December 2023. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

9 OPERATING SEGMENTS

Information about reportable segments

The Group is organised into three segments based on operations performed, and on geography, being:

- Oil & gas exploration activities on-shore United States of America;
- Oil production activities on-shore Austria; and
- Oil production activities on-shore Canada.

These operating segments are based on the internal reports that are reviewed and utilised by the Board of Directors (who are identified as the Chief Operating Decision Makers (**CODM**)) in assessing performance of the Group and in determining the allocation of resources. There is no aggregation of operating segments. Any amounts that fall outside of these segments are categorised as “Corporate”.

There has been a change in the basis of segmentation since the 31 December 2022 accounts, being a transition from “oil & gas exploration and evaluation activities on-shore Austria” to “oil & gas production activities on-shore Austria”; and from “oil & gas production activities on-shore Canada” to “oil production activities on-shore Canada”.

9 OPERATING SEGMENTS (continued)

Segment information provided to the CODM

31 December 2023	Oil & gas exploration USA	Oil production AUT	Oil production CAN	Corporate	Eliminations	Total
Key segment P&L information						
Revenue from external customers	-	691,199	6,827,157	-	-	7,518,356
Other income from external customers	118,009	-	175,650	-	-	293,659
Profit / (loss) before tax	(100,911)	73,759	2,301,737	(652,721)	-	1,621,864
Exploration expenditure	(214,931)	(38,225)	-	-	-	(253,156)
Depreciation and amortisation	-	-	(568,177)	-	-	(568,177)
Impairment expense	-	-	(713,144)	-	-	(713,144)
Gain on asset disposal	-	-	2,250,747	-	-	2,250,747
Segment balance sheet info						
Current assets	1,642	-	150,282	1,002,505	(46,136)	1,108,293
Non-current assets	-	250,449	11,375,277	-	-	11,625,726
Total Assets	1,642	250,449	11,525,559	1,002,505	(46,136)	12,734,019
Current liabilities	(44,828)	(31,930)	(755,649)	(181,181)	46,136	(967,452)
Non-current liabilities	(59,863)	(78,599)	(9,431,175)	-	-	(9,569,637)
Total Liabilities	(104,691)	(110,529)	(10,186,824)	(181,181)	46,136	(10,537,089)

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9 OPERATING SEGMENTS (continued)

	Oil & gas exploration USA	Oil & gas exploration AUT	Oil & gas production CAN	Corporate	Eliminations	Total
31 December 2022						
Key segment P&L information						
Revenue from external customers	-	-	19,411,200	-	-	19,411,200
Other income from external customers	123,667	163,001	344,142	-	-	630,810
Loss before tax	(173,667)	(446,813)	(1,703,964)	(1,027,220)	-	(3,351,664)
Exploration expenditure	(290,866)	(609,815)	-	-	-	(900,681)
Depreciation and amortisation	-	-	(3,388,502)	-	-	(3,388,502)
Segment balance sheet info						
Current assets	1,191	206,512	1,049,474	150,309	(92,279)	1,315,207
Non-current assets	-	-	30,499,918	-	-	30,499,918
Total Assets	1,191	206,512	31,549,392	150,309	(92,279)	31,815,125
Current liabilities	-	-	(2,702,671)	(86,428)	92,279	(2,696,820)
Non-current liabilities	(59,768)	-	(28,359,694)	-	-	(28,419,462)
Total Liabilities	(59,768)	-	(31,062,365)	(86,428)	92,279	(31,116,282)

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10 PRODUCTION INCOME AND OTHER INCOME

Accounting Policy

Revenue recognition

Revenue from sales of oil and natural gas is recognised at the amount that reflects the consideration to which the Group is expected to be entitled. Prices are based on market prices and is recognised based on the actual volumes sold to customers. Revenue is recognised at the point in time when control of the product is transferred to the customer, which is generally when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer (often via connected pipelines). Where the Group is not the operator of a well, under the terms of the relevant production sharing arrangements, the Group is entitled to its participating share in the crude oil and natural gas, based on the Group's working interest.

Revenue for the year ended 31 December 2023 relates to contracts executed for the sale of crude oil. All performance obligations have been met within the year. There is no variable consideration requiring estimation for the year ended 31 December 2023.

The Group did not have contracts that were executed in a prior year, whereby the performance obligations were partially met at the beginning of the year.

The Group's revenue is currently derived from Canadian operations and Austrian operations and is disaggregated as such in the Group's segment note disclosure at note 9. The Group's revenue disaggregation by pattern of revenue recognition is as follows.

Revenue from continuing operations	2023	2022
	\$	\$
Crude oil sales		
Goods transferred at a point in time	7,518,356	18,936,658
Gas sales		
Goods transferred at a point in time	-	474,542
	7,518,356	19,411,200
Other income	2023	2022
	\$	\$
Other operating income ¹	293,659	630,810
	293,659	630,810

¹ The Company received other operating income from three main sources:

- Via minor gas sales occurring as a by-product of exploration leases acquired in the Capay and Los Medanos gas fields in the Sacramento Basin, onshore California;
- During 2022, ADX Energy Limited (the operator) undertook an extended well test at the Anshof-3 discovery. As this process was considered an evaluation of the prospect, income from this production operation was treated as other operating income. No income has been recorded as other income in 2023; and
- Via alternate minor processing operations and road use income by Blue Sky Resources Limited, the Company's joint arrangement partner, the operator of the Red Earth and Alberta Plains oil and gas assets in Alberta, Canada.

11 PERSONNEL EXPENSES AND EMPLOYEE BENEFITS

Accounting Policy

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of the future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

The table below sets out personnel costs expensed during the year.

	Note	2023	2022
		\$	\$
Directors' remuneration	21	281,829	468,860
		281,829	468,860

12 INCOME TAX EXPENSE

Accounting Policy

Income tax expense comprises current and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Current tax is based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probably that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted rates at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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XSTATE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 INCOME TAX EXPENSE (continued)

(a) Amounts recognised in profit or loss

	2023	2022
	\$	\$
Current tax expense		
Income tax expense recognised on profitable operations	217,220	121,721
Tax losses not brought to account	(249,057)	(101,944)
Other income taxes paid	3,878	3,712
Deferred tax benefit		
Origination and reversal of temporary differences	249,057	101,944
Total income tax expense	221,098	125,433

(b) Reconciliation of effective tax rate

	2023	2022
	\$	\$
Profit / (Loss) for the period	1,400,766	(3,477,096)
Total income tax expense	221,098	125,433
Profit / (Loss) excluding income tax	1,621,864	(3,351,663)
Income tax using the Group's domestic tax rate of 25% (2022: 25%)	405,466	(837,916)
Tax rate differential on non-Australian income	(46,774)	33,607
Non-deductible expenses	(5,305)	345,462
Other international income taxes paid	3,878	3,712
Adjustment for prior periods	(37,408)	(62,151)
Timing differences not brought to account	(347,816)	540,775
Tax losses not brought to account	249,057	101,944
	221,098	125,433
Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	7,623,393	6,627,167
Potential tax benefit at 25% (2022: 25%)	1,905,848	1,656,792

All unused tax losses were incurred by Australian entities.

Potential future income tax benefits of up to \$1,905,848 (2022: \$1,656,792) attributed to tax losses have not been brought to account because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable.

12 INCOME TAX EXPENSE (continued)

The benefit of these tax losses will only be obtained if:

- i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- ii) the conditions for deductibility imposed by tax legalisation continue to be complied with;
- iii) no changes in tax legislation adversely affect the Group in realising the benefit; and
- iv) satisfaction of either the continuity of ownership or the same business test.

(c) Unrecognised deferred tax assets and liabilities

Deferred tax assets (DTAs) and liabilities have not been recognised in respect of the following items:

	2023	2022
	\$	\$
Deferred tax assets		
Employee benefits	372	356
Carry forward tax losses	1,905,848	1,656,792
Site restoration provisions	6,975,400	8,280,859
Other	1,048	1,048
	8,882,668	9,939,055
Deferred tax liabilities		
Oil and gas properties	(6,204,385)	(8,057,429)
International intercompany loan	(7,178)	(12,447)
DTAs not brought to account	2,671,105	1,869,179

13 EARNINGS / (LOSS) PER SHARE

(a) Basic earnings / (loss) per share

Earnings / (loss) per share (EPS) is the amount of post-tax profit or loss attributable to each share.

The calculation of basic loss per share at 31 December 2023 has been based on the loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

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13 EARNINGS / (LOSS) PER SHARE (continued)

Earnings / (loss) per share attributable to ordinary shareholders

	2023	2022
Net profit / (loss) attributable to ordinary shareholders - \$	1,400,766	(3,447,096)
Issued ordinary shares at 1 January	321,519,150	321,519,150
Effect of shares issued	-	-
Weighted average number of ordinary shares at 31 December	321,519,150	321,519,150
Basic earnings / (loss) per share (cents)	0.44	(1.08)
Diluted earnings / (loss) per share (cents) ¹	0.42	(1.08)

¹ At 31 December 2023, 26,300,000 options (2022: 11,550,000 options) were included in the diluted weighted average number of ordinary shares calculation. As at 31 December 2022, 11,550,000 options were excluded from the diluted weighted average number of ordinary share calculation as their inclusion would be considered anti-dilutive.

14 CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(a) Reconciliation of cash and cash equivalents

	2023	2022
	\$	\$
Cash and cash equivalents	995,260	814,463

The perceived credit risk is low as cash and cash equivalents are with authorised deposit taking institutions.

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14 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of cash flows from operating activities

	2023	2022
	\$	\$
Cash flows from operating activities		
Profit / (loss) for the year	1,400,766	(3,477,096)
Adjustments for:		
Depreciation	568,177	3,388,502
Unwinding of discount on restoration liabilities	325,513	736,818
Share-based payments	71,391	267,958
Net loss / (profit) on foreign exchange translation	(4,028)	(528)
Gain on disposal of asset	(2,250,747)	-
Impairment expense recognised oil and gas assets	713,144	
Change in other receivables	(794,307)	2,186,228
Change in prepayments	130,372	(163,096)
Change in inventories	75,112	(106,884)
Change in other operating assets	(1,397,513)	(1,516,294)
Change in trade and other payables	87,104	15,594
Change in interest bearing liabilities	47,769	-
Change in tax liabilities	356,595	(421,306)
Change in employee benefits	61	(211)
Change in provisions	592,360	(808,744)
Net Cash used in operating activities	(78,231)	100,941

There were no non-cash investing or financing activities in the 2023 or 2022 financial years.

15 OIL AND GAS ASSETS

Accounting Policy

Producing Assets

All costs directly associated with the development and production of oil and natural gas interests are capitalised on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Items of property, plant and equipment, which include oil and natural gas production assets, are measured at cost less accumulated depreciation/amortisation and any accumulated impairment losses. Development costs include expenditure for areas where technical feasibility and commercial viability has been determined. The capitalised value of producing assets includes acquisition costs, reactivation and development costs and initial estimates of decommissioning liabilities associated with their operation.

Reserve estimates

Estimation of reported recoverable quantities of 2P reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape depth and quality of reservoirs and their anticipated recoveries.

15 OIL AND GAS ASSETS (continued)

Accounting Policy (continued)

Reserve estimates

These factors used to estimate the reserves may change from period to period.

Reserve estimates are used to calculate amortisation of producing assets.

Depreciation and Amortisation

Depletion charges are calculated to amortise the capitalised value of carried forward production assets over the life of the estimated Proved plus Probable ("2P") reserves for a hydrocarbon reserve, together with future costs necessary to develop the respective hydrocarbon reserve. The value of oil and natural gas interests is depleted using the units of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil and natural gas with geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of proved and probable reserves are 90 percent and 10 percent, respectively.

	Sub-surface assets \$	Surface assets \$	Construction in progress \$	Total \$
Balance as at 1 January 2022	29,591,585	9,093,814	-	38,685,399
Additions	-	1,516,294	-	1,516,294
Depletion of assets	(2,600,624)	(787,878)	-	(3,388,502)
Changes in asset retirement obligation estimates	(4,829,997)	(1,622,828)	-	(6,452,825)
Foreign exchange movements	130,022	9,530	-	139,552
Balance as at 31 December 2022	22,290,986	8,208,932	-	30,499,918
Acquisition – Crest Jinn	654,093	163,523	-	817,616
Capitalisation of asset retirement obligation	31,156	86,130	-	117,286
Additions	-	765,712	99,336	865,048
Depletion of assets	(405,957)	(162,220)	-	(568,177)
Impairment recognised	(354,350)	(358,794)	-	(713,144)
Disposal of assets	(14,802,897)	(5,786,676)	-	(20,589,573)
Changes in asset retirement obligation estimates	227,486	87,305	-	314,791
Foreign exchange movements	646,954	235,439	(432)	881,961
Balance as at 31 December 2023	8,287,471	3,239,351	98,904	11,625,726

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15 OIL AND GAS ASSETS (continued)

Impairment

During 2023, Xstate acquired a 25% working interest in the Crest Jinn assets, located adjacent the Company's existing Red Earth assets, which included 2 oil discovery wells that had previously been drilled, completed and recovered oil. Of predominant focus during the first half of the year was the equipping and commencement of production of these 2 acquired wells.

Initial flow assessments showed strong production that tapered off for one of these wells. By September 2023, the operator made the decision to shut in one of the two acquired wells for the rationale that the production operations were uncommercial to continue on account of water production. The remaining well continues to produce profitably at approximately 20-30bbl/d Gross to the operation.

As this well has been unprofitable and shut-in with no near-term expectation of re-entry, impairment triggers were identified as being present and the capitalised value of the asset was impaired in full as it is considered to have no further value in use, nor any disposal value.

This asset is a component of the Canadian Oil Production in the segment note detailed at note 9.

Disposal of Alberta Plains Assets

On 19 July 2023, Xstate announced that it had entered into an agreement to sell its 35% working interest in the Alberta Plains Assets to Blue Sky Resources Ltd for consideration of C\$1,575,000 (approximately A\$1,750,000 at the time).

The effective date of the transaction was 1 January 2023, and as of that date Blue Sky was owed a total of C\$492,965 for costs of the operation. It was agreed for the amount owing to be reduced against the proceeds, resulting in Xstate receiving C1,082,035 (approximately A\$1,200,000).

This disposal transaction has been recognised in the profit and loss as a gain on disposal totalling A\$2,250,747 (C\$2,016,000). The assets and associated rehabilitation obligation have been derecognised as a result of this transaction, as is noted in this note 15 as a disposal of assets, and in note 17 as a discharge of liabilities on disposal.

Disposal of Red Earth Assets

Subsequent to year end, Xstate announced that it has entered into an agreement to sell its 25% working interest in the Red Earth Assets to Blue Sky for consideration of US\$2,737,373 (approximately A\$4,165,000).

The effective date of the transaction is 1 January 2024, and the transaction is subject to Xstate receiving requisite shareholder approval as required under LR 11.2, with a vote to be held at the Company's Annual General Meeting.

As at 31 December 2023, the Red Earth assets represent the following amounts of Oil and Gas assets presented in the table on the previous page

Asset classification	2023
	\$
Sub-surface assets	2,709,293
Surface assets	7,935,355
	10,644,648

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16 TRADE AND OTHER PAYABLES

Accounting Policy

Trade payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

	2023	2022
	\$	\$
Current		
Trade payables	(137,745)	(48,218)
Net production operations payable (Canada)	-	(1,348,187)
Joint Venture Operations payable (Austria)	(12,397)	
Other payables and accrued expenses	(81,892)	(36,785)
	(232,034)	(1,433,190)

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 20.

17 SITE RESTORATION PROVISIONS

Accounting Policy

Provisions

Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

Site restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of contaminated and disturbed land, and the related expense, is recognised when the land is contaminated or disturbed. The site restoration provision represents the present value of decommissioning and site restoration costs relating to oil and gas properties.

At each reporting date the site rehabilitation provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and re-added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the entity.

Site restoration provisions have been disaggregated based upon geography due to differing jurisdictional requirements.

California, United States

The joint-venture operator, Sargasco Limited (**ASX:SGC**), has lodged a blanket bond to the total of USD\$200,000 with the Californian Department of Conservation and Division of Oil, Gas and Geothermal Resources (DoGGR) in respect of the well licenses held in the Sacramento Basin onshore California area of interest. The blanket bond is for coverage of up to 50 idle wells, a number significantly higher than the amount of idle wells held by the joint-venture at current.

17 SITE RESTORATION PROVISIONS (continued)

California, United States (continued)

Xstate has taken up a provision balance in respect of its working interest percentage for each of the wells held by the JV, representing the maximum exposure to the Company for restoration and rehabilitation in respect of the well interests held.

Alberta, Canada (Red Earth and Crest Jinn assets)

The activities of the joint operation in Alberta, Canada (comprising the Group's working interests in the Red Earth assets and the Alberta Plains assets) give rise to dismantling, decommissioning and site disturbance remediation activities which are expected to be incurred through until approximately 2045.

These provisions have been recognised based upon region specific cost estimates provided by the Alberta Energy Regulator (**AER**). The assumptions are based on the current economic environment and are contained within Directive 011 as provide by AER. These estimates are reviewed regularly to take into account any material changes to the assumptions, however, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend upon when the fields cease to produce at an economically viable rate. This, in turn, will depend upon future oil and gas prices, which are considered inherently uncertain.

The significant assumptions used in the calculation of the present value of the provisions are a risk-free rate of 3.12 percent (2022: 3.45 percent), a long-term inflation rate assumption of 2 percent (2022: 2 percent) and the assumed timing of cash outflows through to 2045.

Provisions are made for the estimated cost of asset retirement obligations associated with site restoration and are capitalised to Oil and Gas Assets, as outlined in Note 15, and amortised over the useful life of the assets.

Anshof, Austria

The activities of the joint operation in Austria gives rise to dismantling, decommissioning and site disturbance remediation activities which are expected to be incurred at the conclusion of oil production activities, estimated by the operator presently as being a life cycle of approximately 17 years.

These provisions have been recognised based upon specific rehabilitation costing estimates prepared and submitted by the Operator in accordance with Austrian government legislation with regard to rehabilitation of producing well sites.

The significant assumptions used in the calculation of the present value of the provisions are a risk-free rate of 2.42 percent, a long-term inflation rate assumption of 2 percent and the assumed timing of cash outflows through to 2039.

Provisions are made for the estimated cost of asset retirement obligations associated with site restoration and are capitalised to Oil and Gas Assets, as outlined in Note 15, and amortised over the useful life of the assets.

17 SITE RESTORATION PROVISIONS (continued)

	2023	2022
	\$	\$
Current		
Canadian asset retirement obligation	(512,005)	(1,262,205)
Non-current		
Canadian asset retirement obligation	(9,431,174)	(28,359,694)
Californian site restoration provision	(59,863)	(59,768)
Austrian site restoration provision	(78,600)	-
Total Non-current	(9,569,637)	(28,419,462)
Total Provision	(10,081,642)	(29,681,666)

	2023	2022
	\$	\$
Movement in carrying amounts		
Opening balance	(29,681,666)	(36,099,715)
Additional provisions recognised - Canada	(43,575)	-
Additional provisions recognised - Austria	(67,055)	-
Discharge of liability on disposal	20,247,617	-
Rehabilitation works performed	107,115	808,744
Unwinding of discount ¹	(326,604)	(736,818)
Re-estimation of provisions	(500,848)	160,938
Effects of change in discount rate	186,099	6,291,886
Effects of foreign exchange	(2,727)	(106,703)
Closing balance	(10,081,642)	(29,681,666)

¹ The re-estimation of the Canadian restoration and rehabilitation provision has arisen from a combination of; 1. Inflation applied to base costs estimates of 3.89% to effect the current-term effects of inflation on costings that long-term estimates are based upon (2022: 6.8%); and 2. changes in the risk free rate and long-term inflation rates used in NPV calculations for the liability provision estimate for the life of the oil fields.

Disposal of Red Earth Assets

As at 31 December 2023, the Red Earth assets represent the following amounts of Site Restoration Provision presented in the table above

	2023
	\$
Asset classification	
Current Canadian Asset Retirement Obligation	(512,005)
Non-current Canadian Asset Retirement Obligation	(9,386,392)
	(9,898,397)

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18 CAPITAL AND RESERVES

Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Share capital

	Ordinary shares			
	Number of shares		Amount in \$	
	2023	2022	2023	2022
Movements in ordinary shares on issue:				
On issue at 1 January	321,519,150	321,159,150	58,083,830	58,083,830
On issue at 31 December	321,519,150	321,519,150	58,083,830	58,083,830

The holders of ordinary shares are entitled to receive dividends as declared from time and are entitled to one vote per share at meetings of the Company. Option holders cannot participate in any new share issues by the Company without exercising their options.

In the event of a winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

All issued shares are fully paid.

Options

	Options on issue			
	Number of options		Amount in \$	
	2023	2022	2023	2022
Movements in options on issue:				
On issue at 1 January	11,550,000	7,500,000	267,958	472,852
Issue of options to Directors	12,000,000	10,500,000	58,080	243,597
Issue of options to Consultants	2,750,000	1,050,000	13,311	24,361
Exercise of options	-	-	-	-
Expiry of unlisted options	-	(7,500,000)	-	(472,852)
On issue at 31 December	26,300,000	11,550,000	339,349	267,958

During the reporting period, no shares were issued as a result of the exercise of options. (2022: nil)

Since the end of the reporting period, no shares have been issued as a result of the exercise of options.

During the reporting period, no options expired (2022: 7,500,000 options expired). Since the end of the reporting period, 11,550,000 options expired unexercised.

18 CAPITAL AND RESERVES (continued)

Nature and purpose of reserves

Options reserve

The options reserve represents the fair value of shares to be issued to directors, consultants and employees. This reserve will be transferred to capital once the shares have been issued or reversed through retained earnings if the options expire or are cancelled.

Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

19 SHARE-BASED PAYMENTS

Accounting Policy

The Company has the ability to implement an incentive share and option plan for employees and contractors to the Group, via shareholder approval, whereby employees and contractors may receive rights to acquire shares of the Company as remuneration or incentivisation. The grant date fair value of share-based payment awards granted to employees and contractors is recognised as a *personnel expense*, with a corresponding increase in equity, over the period that the employees and contractors become unconditionally entitled to the awards. The Group entered into such share-based payment transactions during the current financial year via options issued to Directors and Consultants as approved by shareholders at the 2023 Annual General Meeting.

The Group additionally has the capacity to issue equity securities to suppliers under the ASX Listing Rules as an alternate method of payment for goods or services provided. The grant date fair value of share-based payments awards granted to suppliers is recognised as a separate expense, *share-based payments expense*, with a corresponding increase in equity over the period that the supplier provides the service or becomes unconditionally entitled to the award. The Group did not enter into such share-based payment transactions during the current financial year.

The amounts recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-market vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for difference between expected and actual outcomes.

The share-based payment expense included within the financial statements can be broken down as follows:

	Note	2023 \$	2022 \$
Personnel expenses			
Options issued to Directors	21	58,080	243,597
Professional fees			
Options issued to consultants		13,311	24,361

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19 SHARE-BASED PAYMENTS (continued)

At 31 December 2023, a summary of the Company options in issue and not exercised are as follows, excluding any free-attaching options currently in issue. Options are settled by the physical delivery of shares.

Grant date	Vesting date	Expiry date	Exercise price (cents)	Opening balance	Granted during year	Exercised during year	Closing balance	Vested and exercisable
31-May-22	31-May-22	31-Jan-24	5	11,550,000	-	-	11,550,000	11,550,000
31-May-23	31-May-23	30-Jun-26	3	-	14,750,000	-	14,750,000	14,750,000
Total				11,550,000	14,750,000	-	26,300,000	26,300,000
Weighted Average Exercise Price (cents)				5	3	-	3.89	3.89

Note: This disclosure has been prepared to reflect the consolidation of capital

The weighted average remaining contractual life of options outstanding at year end was 1.44 years.

Options granted during the period have been valued using the Black-Scholes Option Valuation model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying shares, current market price of the underlying shares and the expected life of the option.

	Options
Number of options	14,750,000
Exercise price (cents)	3
Grant date	31-May-23
Expiry date	30-Jun-26
Life of the options (years)	3.08
Volatility	100%
Risk free rate	3.20%
Fair value at grant date (cents)	0.48
Share price at grant date (cents)	1.1

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20 FINANCIAL INSTRUMENTS - RISK MANAGEMENT

Accounting Policy

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement categories in the statement of financial position in accordance with AASB 9 *Financial Instruments*:

- Fair value through Profit or Loss (FVTPL)
- Amortised Cost
- Fair value through Other Comprehensive Income (FVTOCI)

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and de-recognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Overview

The Group has exposure through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign exchange risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

Principal Financial Instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Cash and Cash Equivalents (note 14)
- Trade and other payables (note 16)
- Current tax liability
- Borrowings

Financial Assets

	Amortised cost	
	2023	2022
	\$	\$
Cash and cash equivalents	995,260	814,463
Trade and other receivables	6,439	4,548
Total Financial Assets	1,001,699	819,011

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20 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Financial Liabilities

	Amortised cost	
	2023	2022
	\$	\$
Trade and other payables	(232,034)	(1,433,190)
Current tax liability	(217,039)	-
Borrowings	(4,886)	-
Total Financial Assets	(453,959)	(1,433,190)

Financial Instruments not measured at fair value

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their value.

Due to the nature of the agreements for borrowings, the carrying value approximates their value.

General objectives, processes and policies

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. Credit risk arises principally from the Group's receivables from joint operations.

As the Group currently has a minimal amount of transactions, outside of its joint operation in Canada, that result in receivables, the Risk Management Committee has determined it not necessary to establish a credit policy for assessing creditworthiness of customers at this stage.

The carrying amount of financial assets represents the maximum credit exposure.

Cash and cash equivalents

The Group held cash and cash equivalents of \$995,260 at 31 December 2023 (2022: \$814,463). The cash and cash equivalents are held with authorised banking institutions and only with counterparties that have an acceptable credit rating.

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20 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk arises from the Group's management of working capital, it is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's objective is to ensure, so far as is possible, that it will always have sufficient cash and cash equivalents to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The information on the following page represents the contractual maturities of financial liabilities excluding the impact of netting arrangements:

The balances above will not always agree to the financial statements as the contractual cash flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position.

	Carrying amount \$	Contractual cash flows \$	12 months or less \$
31 December 2023			
Non-derivative financial liabilities			
Trade and other payables	(232,034)	(232,034)	(232,034)
Current tax liability	(217,039)	(217,039)	(217,039)
Finance lease liability	(4,886)	(4,886)	(4,886)
	(453,959)	(453,959)	(453,959)
31 December 2022			
Non-derivative financial liabilities			
Trade and other payables	(1,433,190)	(1,433,190)	(1,433,190)
	(1,433,190)	(1,433,190)	(1,433,190)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change to the manner in which the Group manages market risk from the previous year.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group operates internationally and is exposed to currency risk on exploration and evaluation activities in the USA and Austria (Euro), and oil and gas production operations in Canada.

The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than Australian dollars and ensuring that adequate foreign currency balances are maintained or provided for. The objective of the Group's foreign exchange risk management is to ensure its financial viability despite potential periods of unfavourable exchange rates.

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20 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the reporting date is as follows (denominated below in AUD equivalent as at respective period end exchange rates):

	Assets		Liabilities	
	2023	2022	2023	2022
	\$	\$	\$	\$
US dollar	1,422	1,641	(44,238)	-
Canadian dollar	65,987	794,282	(197,508)	(1,000,202)
Euro	-	-	(19,532)	-

Foreign currency sensitivity analysis

The Group is predominantly exposed to US dollar (**USD**), Canadian dollar (**CAD**) and Euro (**EUR**) foreign exchange risk. A sensitivity analysis has been performed, assessing outstanding foreign currency denominated monetary items and adjusting their translation at the year-end for a 2% (31 December 2022: 2%) change in foreign currency rates. This analysis has identified that the impact on profit and loss in the current and prior financial period would not be a material impact to the Company and the Group.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market commodity prices for crude oil and natural gas.

The objective of the Group's commodity price risk management is to ensure its financial viability despite potential periods of unfavourable prices. Sensitivity analyses are conducted to evaluate the potential impact of unfavourable prices on the Group's future financial position. The results of these evaluations are used to determine the most appropriate risk mitigation tool to be used.

Commodity price sensitivity analysis

The Group is exposed to movements in commodity prices for crude oil and for natural gas. The sensitivity analysis below summarises the impact of increases or decreases on the Group's pre-tax loss for the period based upon movements in commodity prices. A positive number indicates a decrease to loss where the commodity price has increased and a negative number indicates an increase in loss for the year where the commodity price has decreased.

	Impact on profit or loss	
	2023	2022
	\$	\$
Increase in oil price by 20% (31 December 2022: 20%)	1,503,671	2,407,201
Decrease in oil price by 20% (31 December 2022: 20%)	(1,503,671)	(2,407,201)

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20 FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group only has interest rate risk relating to its funds on deposit with banking institutions. All current loans payable by the Group are on terms agreed between the parties and are not subject to change during the life of the agreements. Accordingly, the Group does not hedge its interest rate risk exposure.

Market risk (continued)

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows:

	Carrying amount	
	2023	2022
	\$	\$
Variable rate instruments		
Cash and cash equivalents	995,260	814,463
	995,260	814,463

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date has been analysed for potential impact upon the Company and the Group. This analysis assumes that all other variables remain constant. The analysis identified that the impact of a change in interest rates on variable rate instruments would not have a material impact on the Company or the Group.

At the reporting date the Group did not hold any variable rate financial liabilities.

21 RELATED PARTIES

Key management personnel compensation included in "Directors' remuneration" (note 11), comprises the following:

	Note	2023	2022
		\$	\$
Short term employee benefits		217,926	218,056
Post-employment benefits		5,823	7,207
Share-based payments	19	58,080	243,597
	11	281,829	468,860

21 RELATED PARTIES (continued)

Individual Director's and Executives' compensation disclosures

Information regarding individual Director's and Executive's compensation and some equity instruments disclosures as required by s300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' Report in section 14.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Other key management personnel transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these companies transacted with the Company during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to Key Management Personnel and entities over which they have control or significant influence were as follows:

<i>KMP</i>	<i>Transaction</i>	Transactions value year ended 31 December		Balance outstanding as at 31 December	
		2023	2022	2023	2022
		\$	\$	\$	\$
Andrew Childs	Consultancy fees ¹	25,500	54,000	25,500	-
Andrew Bald	Consultancy fees ²	4,500	-	4,500	-
Greg Channon	Consultancy fees ³	1,500	15,000	1,500	-
				31,500	-

¹ The Group incurred \$25,500 for consultancy services to Resource Recruitment Pty Ltd, a company associated with Mr Childs, in relation to technical oil and gas analysis services provided to the Group, services considered outside the scope of Mr Childs' Director commitments. Amounts were billed based on normal market rates for such services and were due and payable under normal terms at the end of the financial year.

² The Group incurred \$4,500 for consultancy services to Panthea Capital Pty Ltd, a company associated with Mr Bald, in relation to analysis and consulting services provided to the Group, services considered outside the scope of Mr Bald's Director commitments. Amounts were billed based on normal market rates for such services and were due and payable under normal terms at the end of the financial year.

³ The Group incurred \$1,500 for consultancy services of Ruby Lloyd Pty Ltd, a company associated with Mr Channon, in relation to technical oil and gas analysis services provided to the Group, services considered outside the scope of Mr Channon's Director commitments. Amounts were billed based on normal market rates for such services and were due and payable under normal terms at the end of the financial year.

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22 SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Financial year end	Proportion of ownership interest and voting power held by the Group	
				2023 %	2022 %
CalX SELA LLC	Oil and gas exploration	California, USA	31 December	100	100
Xstate (USA) Corp	Oil and gas exploration	California, USA	31 December	100	100
XGas LLC	Oil and gas exploration	California, USA	31 December	100	100
Xstate Energy Ltd	Oil production	Alberta, Canada	31 December	100	100

Joint operations

Xstate Energy Limited ("**Xstate Energy**") holds working interests in assets owned and operated by Blue Sky Resources Limited ("**BSRL**"), a Canadian oil and gas production entity. Xstate Energy holds a 25% working interest in the Red Earth and Crest Jinn oil producing assets and lands. BSRL is the operator of the oil production assets and identifies the proportional share of income, expenditure, assets and liabilities attributable to Xstate Energy as a result of operations. The operation is considered a joint arrangement for accounting purposes. The principal place of business is Alberta, Canada.

Post year-end, Xstate divested of its 25% working interest in the Red Earth assets, subject to shareholder approval.

Xstate Resources Limited ("**Xstate**") holds a 20% working interest in the Anshof Discovery Area in Austria, operated by ADX Energy Limited ("**ADX**"). ADX is the operator of the production assets and identifies the proportional share of income, expenditure, assets and liabilities attributable to Xstate as a result of operations. The operation is considered a joint arrangement for accounting purposes.

The principal place of business is Molasse Basin, Austria.

23 SUBSEQUENT EVENTS

On 29 February 2024, the Company announced that it had entered into an agreement to sell its 25% working interest in the Red Earth Assets, located in Alberta, Canada, to Blue Sky Resources Limited for cash consideration of US\$2.73m. The Effective Date of the transaction was agreed as 1 January 2024. Xstate is currently seeking shareholder approval for the transaction, with a resolution to be included in the Company's Annual General Meeting to approve the transaction under the requirements of ASX Listing Rule 11.2.

The Red Earth assets in their entirety are considered a distinct disposal group, and further information about the assets disposed and liabilities discharged is contained in notes 16 and 18 respectively. The Red Earth assets formed part of the Canadian Oil Production segment identified in note 9. The retention of the Crest Jinn wells means that the disposal is not resulting in a discontinued operation.

The Company resolved to divest the Red Earth assets post year-end in light of operational performance across the preceding 3 financial years, the ongoing restoration commitments associated with the ageing assets and a requirement for recapitalisation of the Company to enable it to seek alternate opportunities for exploration. To the date of this report, the Company has received a total of US\$400,000 in settlement of the first two tranches of consideration, noted in the Review of Operations on page 4.

On 31 January 2024, 11,550,000 unlisted options with an exercise price of 5 cents expired unexercised.

23 SUBSEQUENT EVENTS (continued)

Other than the matters identified above, there have been no matters or circumstances that have arisen since the end of the financial year that have significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company in future financial years.

24 PARENT COMPANY DISCLOSURES

As at, and throughout the financial year ended 31 December 2023, the parent entity of the Group was Xstate Resources Limited. Refer to note 25 for contingent liabilities that impact the parent entity.

	2023	2022
	\$	\$
Results of the parent entity		
Total comprehensive profit / (loss) for the year	87,741	(3,491,983)
Financial position of parent entity at year end		
Current assets	990,106	356,822
Total assets	1,240,555	845,039
Current liabilities	(244,118)	(87,019)
Total liabilities	(382,580)	(146,196)
Total equity of the parent entity comprising of:		
Share capital	58,083,830	58,083,830
Reserves	339,349	267,958
Accumulated losses	(57,565,204)	(57,652,945)
Total equity	857,975	698,843

25 CONTINGENT LIABILITIES

A contingent liability is a possible obligation arising from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent liability may also be a present obligation arising from past events but is not recognised on the basis that an outflow of economic resources to settle the obligation is not viewed as probable, or the amount of the obligation cannot be reliably measured.

When the Group has a present obligation, an outflow of economic resources is assessed as probable and the Group can reliably measure the obligation, a provision is recognised.

As at the end of the reporting period, the Company has no identifiable contingent liabilities.

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26 AUDITORS' REMUNERATION

	2023	2022
	\$	\$
BDO Audit (WA) Pty Ltd		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	99,040	81,478
Total remuneration for audit and other assurance services	99,040	81,478
<i>Taxation services</i>		
Tax compliance services	10,166	18,528
Total remuneration for taxation services	10,166	18,528
BDO (Canada) LLC		
<i>Taxation services</i>		
Tax compliance services	-	15,032
Total remuneration for taxation services	-	15,032
Total remuneration of BDO Audit (WA) Pty Ltd and its related parties	109,206	115,038

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. These assignments are principally tax advice, or where BDO is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

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DIRECTORS' DECLARATION

1. In the opinion of the Directors of Xstate Resources Limited (the "Company"):
 - (a) the accompanying financial statements and notes are in accordance with the *Corporations Act 2001* including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, professional reporting requirements and other mandatory requirements.
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2023.

This declaration is signed in accordance with a resolution of the Board of Directors.



ANDREW CHILDS

Executive Chairman

Dated at Perth, Western Australia this 28th day of March 2024.

INDEPENDENT AUDITOR'S REPORT

To the members of Xstate Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Xstate Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including material accounting policy information and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 3 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of oil and gas assets

Key audit matter	How the matter was addressed in our audit
<p>At 31 December 2023, the carrying value of Oil & Gas Assets, as disclosed in Note 15, represents a significant balance to the group.</p> <p>During the year the Group identified indicators of possible impairment relating to specific wells. As a result, the Group undertook an impairment assessment and recognised an impairment charge as disclosed in Note 15. Refer to Note 5 and Note 6 for detailed disclosures that include the related accounting policies and the critical accounting judgements and estimates.</p> <p>The assessment of impairment triggers includes judgement in assessing a range of external and internal factors to determine whether the Oil & Gas Assets require impairment testing to be undertaken in accordance with Australian Accounting Standard AASB 136 <i>Impairment of Assets</i>. Accordingly, this matter was considered to be a key audit matter.</p>	<p>Our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Obtaining and reviewing available reserve report data from management’s experts to determine whether they indicate a significant change that would impact the value of the asset. This included assessing the competency and objectivity of management’s experts; • Benchmarking and analysing management’s oil and gas price assumptions against external market data, to determine whether they indicate a significant change that would impact the value of the asset; • Assessing the appropriateness and accuracy of the capitalised oil and gas amounts as a result of the acquisition and disposal of working interests in producing assets during the year; • Evaluating and assessing the accuracy of the Group’s calculation of the impairment charge; • Reviewing the Directors’ minutes and ASX announcements for evidence of consistency of information with management’s assessment of the carrying value; • Considering whether there were any other facts and circumstances that existed to indicate impairment testing was required; and • Assessing the adequacy of the related disclosures in Note 15 to the financial report.

Disposal of oil and gas assets

Key audit matter	How the matter was addressed in our audit
<p>During the year ended 31 December 2023 the Group disposed of its Alberta Plains Assets as disclosed in Note 15.</p> <p>The audit of the accounting for this disposal is a key audit matter due to the significant judgement and complexity involved in assessing the determination of the fair value of the consideration received, the carrying value of the assets and liabilities disposed of and the effective date of the transaction.</p>	<p>Our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Reviewing the sale agreement to understand the key terms and conditions, and confirming our understanding of the transaction with management; • Comparing the assets and liabilities derecognised on disposal against the executed agreement; • Assessing the appropriateness of the transaction date in consideration with the applicable reporting framework; and • Assessing the adequacy of the related disclosures in Note 15 to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2023, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 25 of the directors' report for the year ended 31 December 2023.

In our opinion, the Remuneration Report of Xstate Resources Limited, for the year ended 31 December 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd



Ashleigh Woodley

Director

Perth, 28 March 2024

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 25 March 2024:

1. Distribution of ordinary shares

Range	Total holders	Ordinary shares	% of issued capital
1 - 1,000	882	87,038	0.03%
1,001 - 5,000	560	1,921,620	0.60%
5,001 - 10,000	471	3,826,132	1.19%
10,001 - 100,000	1,316	50,491,230	15.70%
100,001 and over	413	265,193,130	82.48%
Total	3,642	321,519,150	100.00%

There were 2,613 holders of less than a marketable parcel of ordinary shares.

2. Substantial shareholders

Shareholders	Number held
Blue Sky Resources Ltd.	28,617,247
Mr Christopher Whitehead	18,379,519

3. Voting rights

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

Options and rights

No voting rights.

4. Unlisted options

Grant date	Number	Number of holders	Expiry date	Exercise price (cents)
31-May-23	14,750,000	4	30-Jun-2026	3

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XSTATE RESOURCES LIMITED
STOCK EXCHANGE INFORMATION

5. Twenty largest shareholders

Shareholders	Ordinary shares	
	Number held	% of issued shares
BLUE SKY RESOURCES LTD.	28,617,247	8.90%
WHEAD PTY LTD <CJ HOLDINGS A/C>	14,342,636	4.46%
MR RIKI DAVID WYLIE	11,438,000	3.56%
TALEX INVESTMENTS PTY LTD	9,600,000	2.99%
SUBURBAN HOLDINGS PTY LTD <THE SUBURBAN SUPER FUND A/C>	5,937,129	1.85%
MS XING LIU	4,224,000	1.31%
MISS KATRINA FOURRO	4,170,000	1.30%
MR DAMIAN ARTHUR FURNELL	4,000,000	1.24%
MR TEIK TATT OH	3,800,000	1.18%
MR ALAN GEORGE BROOKS & MRS PHILIPPA CLAIRE BROOKS <A G & P C BROOKS S/FUND A/C>	3,528,367	1.10%
MAGaurite PTY LTD <PETER NELSON SUPER FUND A/C>	3,400,000	1.06%
HERA INVESTMENTS PTY LTD	3,166,108	0.98%
MANDALARI PTY LTD <APAFI SF A/C>	3,030,682	0.94%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT>	2,574,870	0.80%
MR CHUNHANG LI	2,500,000	0.78%
STILL CAPITAL PTY LTD	2,453,883	0.76%
DR JOHN TOMASICH	2,300,000	0.72%
MR DAVID MAXWELL MCARTHUR	2,125,557	0.66%
TALEX INVESTMENTS PTY LTD <A F WYLIE SUPER FUND A/C>	2,010,000	0.63%

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XSTATE RESOURCES LIMITED
STOCK EXCHANGE INFORMATION

6. Petroleum lease interests at 25 March 2024

Project name	Location	Working interest
Anshof 3 Discovery Area ⁺	Molasse Basin, Northern Austria	0-20%
Alvares Appraisal Well	Sacramento Basin Onshore Northern California	25%
Alvares Project	Sacramento Basin Onshore Northern California	30%
Dempsey 1-15 Well	Sacramento Basin Onshore Northern California	10%
Dempsey AMI	Sacramento Basin Onshore Northern California	24%
Rancho-Capay Gas Field	Sacramento Basin Onshore Northern California	10%
Malton Field	Sacramento Basin Onshore Northern California	30%
East Rice East Creek Field	Sacramento Basin Onshore Northern California	10%
Los Medanos Gas Field	Sacramento Basin Onshore Northern California	10%
Dutch Slough Field	Sacramento Basin Onshore Northern California	30%
Red Earth Oil Field*	Northern Alberta, Canada	25%

⁺ As a result of Xstate’s election for non-participation in the Anshof-2 well, it holds a nil working interest for that component of the Anshof Discovery Area.

* Red Earth assets have been agreed to be divested, subject to receiving shareholder approval.

7. Gold tenements listing at 25 March 2024

Tenement description	Tenement number	Status	Percentage interest
King Brown	M24/705	Granted	12%

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